

July 8, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket Nos. E015/GR-19-442 and E015/M-20-429

Dear Mr. Seuffert:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), regarding Minnesota Power's proposed Interim Rate Refund Plan Filing in the following matter:

In the Matter of the Application of Minnesota Power for Authority to Increase
Rates for Electric Service in Minnesota.

The Interim Rate Refund Plan Filing was filed on June 8, 2020, but was not attributed to a specific employee of Minnesota Power.

The Department concludes that Minnesota Power's proposed Interim Rate Refund Plan is generally reasonable, but recommends that the Minnesota Public Utilities Commission (Commission) delay action on the plan until after the Department is able to review a forthcoming compliance filing from Minnesota Power. The compliance filing is due by July 10, 2020, so any delay will be minimal.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

/s/ DALE LUSTI
Financial Analyst

CA/DL/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket Nos. E015/GR-19-442 and E015/M-20-429

I. INTRODUCTION AND BACKGROUND

On November 1, 2019, Minnesota Power (or the Company) filed a general rate case in Docket No. E015/GR-19-442 (the 2019 Rate Case). The Company began collecting an interim rate increase of 5.8 percent on January 1, 2020. In the ensuing months, the severe acute respiratory syndrome coronavirus 2, which causes the disease COVID-19, has spread across the globe, a pandemic that in addition to causing widespread illness has resulted in a significant slowdown of the global economy.

On April 23, 2020, Minnesota Power filed a petition (Petition) with the Minnesota Public Utilities Commission (Commission) with a proposal (Resolution Proposal) to resolve and ultimately withdraw the 2019 Rate Case. In the Resolution Proposal, the Company proposed to refund all interim rates collected from January 1, 2020 through April 30, 2020, such that the effective base rates for that period would be the base rates determined in Minnesota Power's last completed rate case, (Docket No E015/GR-16-664, or the 2016 Rate Case).

In addition, beginning May 1, 2020, Minnesota Power proposed to adjust the base rates set in the 2016 Rate Case to remove the credits for energy and capacity asset-based wholesale margins (Margin Credits) included in those rates, add the Margin Credits to the fuel clause rates, and reduce the size of the Margin Credits from \$35.8 million (as set in the 2016 Rate Case) to \$10.0 million (the Company's current estimate of asset-based margins for 2020).¹ The Company proposed to refund to ratepayers all interim rates collected since May 1, 2020, net of the decrease in asset-based margins in the two months of May and June, 2020. In its Petition, Minnesota Power also proposed to reduce interim rates immediately from 5.8 percent to 4.1 percent while the Commission considered the Resolution Proposal.

At its April 30, 2020 agenda meeting, the Commission voted to approve Minnesota Power's proposal to reduce interim rates and on June 12, 2020 issued its Order Approving Interim Rate Reductions. As the Commission stated in its June 12, 2020 Order Approving Interim Rate Reduction (June 12 Order),

The Commission has taken up these proposals independently: the interim rate reduction now, and the proposed rider adjustment will be taken up after an opportunity for notice and public comment.

¹ The Margin Credits are reduced due to the end of a wholesale contract with Basin Electric Cooperative in spring of 2020.

Minnesota Power implemented the reduction approved in the June 12 Order on May 1, 2020.

On June 4, 2020, the Commission voted to approve Minnesota Power's Petition and Resolution Proposal.

On June 8, 2020, Minnesota Power filed its Interim Rate Refund Plan in the 2019 Rate Case Docket, pursuant to the Commission's June 4th vote.

On June 19, 2020, the Commission issued a Notice of Comment Period (Notice) requesting comments on Minnesota Power's Interim Rate Refund Plan, with the following topics open for comment:

- How should the Commission proceed with Minnesota Power's proposed Interim Rate Refund Plan?
- Is the proposed Interim Rate Refund Plan reasonable?
- Is the proposed one-time bill credit reasonable?
- Is the proposed refund amount plus interest reasonable?
- Is the proposed offset for May and June 2020 reasonable?
- Are there any other issues or concerns related to this matter?

On June 30, 2020, the Commission issued its Initial Order Approving Petition and Resolving Rate Case with Conditions (June 30 Order). The June 30 Order contains background and the Commission's Findings and Conclusions. An order setting forth the Commission's rationale is forthcoming. In part, the June 30 Order required the following:

Minnesota Power shall submit a compliance filing within ten days of the final order including –

- A. final rates and all related tariff changes;
- B. supporting spreadsheets with formulas; and
- C. a brief narrative explaining all changes to the rate calculations made since Minnesota Power's April 30, 2020 supplemental filing in this docket.

Thus, Minnesota Power must file this information by July 10, 2020.

On July 1, 2020, Minnesota Power filed a partial Compliance Filing in response to the Commission's June 30 Order. The partial Compliance Filing contained clean and red-lined tariff pages updated with final rates reflecting the requirements of the June 30 Order. On July 6, 2020 Minnesota Power supplemented its July 1, 2020 filing. Minnesota Power is still required to make additional an additional compliance filing with supporting calculations for these final rates as noted above; however, Minnesota Power placed these new rates into effect on July 1, 2020.

Below is the Department's analysis of Minnesota Power's proposed Interim Rate Refund Plan, and responses to date to the Commission's Notice.

II. DEPARTMENT ANALYSIS

A. DETAILS OF MINNESOTA POWER'S PROPOSED INTERIM RATE REFUND PLAN

Minnesota Power's proposed Interim Rate Refund Plan reflects the terms of the Resolution Proposal, which the Commission approved in its June 30 Order. As described above, under the Resolution Proposal, the effective base rates for the period January 1, 2020 through April 30, 2020 are the base rates set in the 2016 Rate Case. Thus, for that period, the June 30 Order requires Minnesota Power to refund 100 percent of interim rate revenue collected, with interest, as required by Minn. Rule 7825.3300. Fuel clause rates for that period are unaffected by the Resolution Proposal.

Pursuant to the Resolution Proposal and the June 30 Order, the effective base rates for the period May 1, 2020 through June 30, 2020 are the base rates set in the 2016 Rate Case, adjusted to remove Margin Credits, which, also pursuant to the June 30 Order, are to be included in the Company's fuel clause rates beginning as of the same date. Thus, for the period May 1, 2020 through June 30, 2020, Minnesota Power is required to refund 100 percent of interim rate revenue collected with interest, net of the impact of the adjustments to base rates and fuel clause rates resulting from the changes related to Margin Credits.

In its Interim Rate Refund Plan, Minnesota Power calculated refunds for the periods (1) January 1, 2020 through April 30, 2020, and (2) May 1, 2020 through June 30, 2020.²

Minnesota Power proposed that refunds for existing customers would be in the form of a one-time bill credit, which the Company assumed in its interest calculations would be credited to bills in August. The Company also proposed that all inactive customer refunds would be calculated and a check would be issued if the customer requests one, and that any residual unclaimed refunds will be handled in accordance with Minn. Stat. §345.34.³

1. Calculation of Refund for the Period January 1, 2020 through April 30, 2020

Consistent with the structure of the Resolution Proposal, the refund for the first period reflects a full refund of all interim rate revenue collected between January 1, 2020 and April 30, 2020, with interest accruing until Minnesota Power credits ratepayer's bill with the refund. In its Interim Rate Refund Plan Filing, Minnesota Power stated that interest will be calculated and compounded on a monthly basis, using the prime interest rate, and that interest will be applied based on the number of months that Minnesota Power has been holding the customer's money. The refund calculation shown in Attachment A of the Interim Rate Refund Plan Filing assumes that this refund will be applied to customer bills in August, and includes interest through that time in its interest calculation. However, the interest calculations will need to be updated if the refund is delayed beyond August.

² See Interim Rate Refund Plan Filing, Attachment A,

³ Interim Rate Refund Plan Filing, pg. 3.

Additionally, Minnesota Power's calculation of the refund for the period January 1, 2020 through April 30, 2020 also includes interim rate revenue collected during the month of July. In a conference call with the Department on June 30, 2020, the Company explained that the inclusion of this amount for July is the result of variances in the timing of customer billing cycles, and timing differences between base rates and fuel clause rates.

For example, a ratepayer with a billing cycle that runs from June 16, 2020 through July 15, 2020, will receive a bill from Minnesota Power shortly after July 15, 2020 that includes 15 days' worth of interim rates, applicable to the days in June included in the billing cycle, when interim rates were still in effect. That interim rate revenue would be reflected in Minnesota Power's calculations as interim rate revenue collected in July, and would need to be refunded with interest.

During the June 30 Conference Call, the Company explained that while the base rates charged to the customer would be a blend of June's effective rate and July's effective rate, the fuel clause rate applied to the bill would be specific to July, and would therefore fully reflect the changes to the fuel clause credit methodology, and no related refunds would be required.

2. Calculation of Refund for the Period May 1, 2020 Through June 30, 2020

For the second period, Minnesota Power proposed to calculate refunds as the sum of three parts:

1. first, a full refund of interim rate revenue collected during the period May 1, 2020 through June 30, 2020 (reflecting MP's estimate that final rates pursuant to the Resolution Proposal would take effect on July 1, 2020), with interest accruing until Minnesota Power credits the refunds to ratepayers' bills (assumed to be August in the Interim Rate Refund Plan Filing);
2. second, an estimate of the increase in base rate revenue that Minnesota Power is entitled to collect pursuant to the June 30 Order for the period to reflect the removal of the \$35.8 million in Margin Credits included in base rates in the 2016 Rate Case; and
3. third, actual asset-based margins during May and June that ratepayers are entitled to be credited with in fuel clause rates (i.e. May and June's actual share of the \$10.0 asset-based margins to be reflected fuel clause rates pursuant to the June 30 Order).

Table 1
Calculation of Total Refund⁴
(\$)

Refund Component	Jan. 1, 2020 - Apr. 30, 2020	May 1, 2020 - Jun. 30, 2020	Total Refund
Interim Rate Revenue Collected	\$ 11,453,581	\$ 3,911,970	
Interest on Interim Rate Revenue	\$ 171,573	\$ 26,498	
Increase in Base Rates	n/a	\$ (5,406,164)	
Decrease in Fuel Clause Rates	n/a	\$ 1,703,844	
Total	\$ 11,625,153	\$ 236,148	\$ 11,861,301

Minnesota Power estimated the increase in base rates (\$5.4 million) by using data from its Final Rates Compliance Filing in the 2016 Rate Case to estimate a per-kWh rate specific to Margin Credits, and multiplying that rate by actual sales volumes during May and June.⁵ The Margin Credit per kWh rate was calculated as show in Table 2.

Table 2
Calculation of Margin Credit per kWh Rate⁶

2016 Rate Case Estimate of Asset-Based Margins	\$35,827,390
2016 Rate Case Test Year Sales (kWh)	<u>8,864,975,111</u>
Margin Credit per kWh	<u>\$0.0040415</u>

This margin credit rate per kWh represents the average increase in base rates set in the 2016 Rate Case that would have resulted if asset-based margins had not been included in the revenue requirement (and assuming that asset-based margins were fully reflected in energy charges, as opposed to demand or customer charges).

Minnesota Power then multiplied this Margin Credit per kWh rate by actual energy sales in May and June 2020 to derive an estimate in the total increase in base rate revenue for May and June it is entitled to recover from ratepayers pursuant to the Commission's June 30 Order approving the Resolution Proposal.

⁴ Interim Rate Refund Plan Filing, Attachment A, page 4.

⁵ Interim Rate Refund Plan Filing, Attachment A, page 4.

⁶ Interim Rate Refund Plan Filing, Attachment A, page 4.

Table 3
Calculation of Increase in Base Rates⁷

Margin Credit per kWh	\$0.0040415
May and June 2020 kWh Sales	<u>1,337,677,866</u>
Increase in Base Rates	<u>\$5,406,164</u>

By calculating the increase in base rates using a per kWh rate for Margin Credits based on test year sales, Minnesota Power accounted for expected seasonal variation in sales and deviations in actual sales versus test year sales. Based on this information, the Department concludes that Minnesota Power's calculation of the offset to May and June interim rate refunds to reflect the increase in base rates under the Resolution Proposal is reasonable.

The decrease in fuel clause rates included in the refund calculation is Minnesota Power's estimate of actual asset-based margins for May and June based on its actual contracts, and are the same estimates for the two months used to derive the Company's estimate for total 2020 asset-based margins of \$10.0 million. The estimates in the Company's Interim Rate Refund Plan are the same as provided in its April 30, 2020 Supplemental Filing.⁸ Therefore, the Department concludes that the Company's proposed offset to reflect the reduction in fuel clause rates for May and June 2020 is reasonable.

For the period May 1, 2020 through June 30, 2020, Minnesota Power calculated interest on total interim revenue collected, rather than the net refund amount (interim revenue net of the offsets) for the period. In the June 30 call with the Department, the Company explained that because it is withdrawing the 2019 Rate Case, it is required by statute⁹ to refund with interest all interim rate revenue collected under interim rates approved by the Commission in the 2019 Rate Case. In other words, the Company is proposing to treat the refund of interim rate revenue somewhat separately from the offsets related to the base rate and fuel clause changes related to Margin Credits. The refund of interim rate revenue is being calculated as though the 2019 Rate Case is being withdrawn in a vacuum, without regard to the Resolution Proposal approved in Docket E015/M-20-429. The impacts of the Resolution Proposal related to changes in the treatment of Margin Credits is being reflected in the overall refund calculation as separate and distinct from the rate case withdrawal.

As the Department acknowledged in its May 11, 2020 Comments in Docket E015/M-20-429, the procedure used for the Resolution Proposal, as well as the Resolution Proposal itself, are unusual. As a result, it is not immediately clear whether Minnesota Power can or should include the related offsets in the interest calculations. However, Minnesota Power's proposed method maximizes the amount of

⁷ Table 2 and Interim Rate Refund Plan Filing, Attachment A, page 4. The sales estimate for May and June includes partially estimated sales for June. Thus, the sales estimate and resulting increase in base rates is likely to change slightly when that estimate is replaced with actual sales.

⁸ April 30, 2020 Supplemental Filing, Attachment B, Attachment B Model PUB, page 6.

⁹ Presumably Minn. Stat. 216B.16, Subd. 3.

interest to be refunded to ratepayers. Because the Company resolved this ambiguity in favor of ratepayers, the Department concludes that the Company's proposed method of calculating interest for the second period is reasonable.

Additionally, the Department notes that even maximizing the amount of interest to be refunded, the total amount of interest for the second period is only \$26,498, or 0.02 percent of the total net refund. Thus, even if Minnesota Power could have reasonably calculated interest on the net refund amount rather than interim rate revenue amount, the impact is negligible.

The Department concludes that the Company's proposal to calculate interest on the full interim rate revenue amount, rather than then net refund amount, is reasonable.

B. MECHANICS OF INTERIM RATE REFUND

In its Interim Rate Refund Plan Filing, Minnesota Power stated:¹⁰

Minnesota Power will use its Customer Information System ("CIS") program to apply a 100 percent refund factor (or percentage) to each billed interim rate amount, which will then be grossed up for interest using a percentage that varies by month based on the prime rate and the number of months Minnesota Power has been holding the customer's money, as outlined on page 3 of Attachment A. The sum of the interim rate refund plus interest will determine an overall refund amount for each month. However, in May and June 2020, the interim rate refund plus interest will be offset by the proposed changes to Margin Credits, causing those changes to become effective May 1, 2020.

In a conference call with the Department on June 30, 2020, Minnesota Power provided further clarification regarding the mechanics of the offsets in May and June to reflect the changes related to Margin Credits. The Company explained that to reflect the offsets in May and June for the net reduction in Margin Credits, the Company will calculate a refund factor equal to the ratio of (1) the increase in total base rate and fuel clause revenue resulting from the change in asset-based margins, to (2) interim revenue collected.

¹⁰ Interim Rate Refund Plan Filing, pg. 2.

Table 4
Refund Factor Offset for May and June¹¹

Increase in Base Rates	[a]	(5,406,164)
Decrease in Fuel Clause Rates	[b]	<u>1,703,844</u>
Subtotal - Changes in Asset-Based Margin Collection	[c]=[a]+[b]	(3,702,320)
Interim Revenue Collected	[d]	<u>3,911,970</u>
Refund Factor Offset for May and June	[e]=-[c]/[d]	94.6%

Thus, of the \$3.9 million in interim rate revenue collected during May and June, Minnesota Power is entitled to retain 94.6 percent pursuant to the Commission's June 30 Order, reflecting the increase in total rates (base rates plus fuel clause) effective May 1, 2020 resulting from the net decrease in Margin Credits effective May 1, 2020.

Minnesota Power's ratepayers will therefore effectively receive a refund of 5.4 percent of interim rate revenue collected during May and June, plus interest calculated on the full interim rate revenue amount (i.e. \$26,498 of interest calculated on \$3.9 million of interim rate revenue).

By calculating and applying a single factor as Minnesota Power has proposed to do, the increase in base rates and the decrease in fuel clause rates will be allocated across customers based on the total amount of interim rate revenue each customer paid.

The Department concludes that Minnesota Power's approach is generally consistent with the normal interim rate refund process in rate cases, in which refunds are calculated based on the final approved rate increase as a percentage of the interim rate increase. Thus, the Department concludes that Minnesota Power's proposed calculation of offsets for May and June are reasonable.

Additionally, the Department notes that the small size of the refund for May and June is in large part a function of the reduction in interim rates from 5.8 percent to 4.1 percent on May 1, 2020. The intention of that reduction was to set interim rates roughly equal to what base rates would be under the Resolution proposal to minimize the size of the overcollection and allow ratepayers to keep their money rather than collecting it from ratepayers in May and June and then turning around and refunding it right back to ratepayers in August.

¹¹ As noted above, the increase in base rates is likely to change when the estimate of June sales is updated with actuals.

C. RESPONSES TO THE TOPICS OPEN FOR COMMENT IN THE COMMISSION'S NOTICE

1. How should the Commission proceed with Minnesota Power's proposed Interim Rate Refund Plan?

The rates included in the tariff sheets provided Minnesota Power's July 1, 2020 Compliance Filing do not exactly match the rates provided in the Company's April 30, 2020 Supplemental Filing. Pursuant to Order Point 3 of the Commission's June 30 Order, Minnesota Power is required to submit a Compliance Filing providing supporting calculations for final rates and a brief narrative explaining all changes to those rates made since the Company's April 30, 2020 Supplemental Filing. The Department cannot determine whether the rates included in the Company's proposed tariff sheets comply with the June 30 Order until it reviews those calculations.

There is a remote chance that after reviewing the Company's forthcoming compliance filing the Department will find an issue or error in the calculation of those rates that necessitates a correction and potentially a small additional refund. Therefore, the Department recommends that the Commission not take any action on the interim rate refund plan until after the Department is able to fully review the Company's proposed final rates. That compliance filing is due by July 10, 2020, and the Department will likely be able to review those calculations quickly, so any delay should be minimal.

2. Is the proposed Interim Rate Refund Plan reasonable?

Based on the above discussion, the Department concludes that Minnesota Power's proposed Interim Rate Refund Plan is Reasonable.

3. Is the proposed one-time bill credit reasonable?

Yes, the proposed one-time bill credit is reasonable, as it is the fastest way to return interim rate overcollections to ratepayers.

4. Is the proposed refund amount plus interest reasonable?

The proposed refund amount prior to adding interest (i.e. the interim rate revenue amounts and the offsets related to Margin Credits) are reasonable, and Minnesota Power's proposed method of calculating interest is reasonable. However, if the refund is delayed beyond August, the amount of interest to be refunded will need to be updated.

5. Is the proposed offset for May and June 2020 reasonable?

Yes, the proposed offset for May and June 2020 is reasonable. As described above, Minnesota Power's proposed method of calculating the offset related to the base rate increase is reasonable, and its use of monthly estimates of Margin Credits specific to May and June as the offset related to the fuel clause rate decrease is also reasonable.

6. Are there any other issues or concerns related to this matter?

The Department has no other issues to raise or concerns related to Minnesota Power's interim rate refund plan.

III. CONCLUSION AND RECOMMENDATIONS

Subject to the Department's expedited review of Minnesota Power's July 10, 2020 Compliance filing, the Department recommends approval of the Company's June 8, 2020 Interim Rate refund Plan.

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