minnesota power

AN ALLETE COMPANY

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November 4, 2020

VIA ELECTRONIC FILING

PUBLIC DOCUMENT
NON-PUBLIC DATA EXCISED

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

Re: In the Matter of Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting from the COVID-19 Pandemic
Docket No. E015/M-20-_____

Dear Mr. Seuffert:

Minnesota Power (or the "Company") respectfully submits via electronic filing its Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting From the COVID-19 Pandemic.

Please contact me at (218) 723-3963 or dmoeller@allete.com if you have any questions regarding this filing.

Very truly,

David R. Moeller
Senior Attorney and
Director of Regulatory Compliance

DRM:rlh
Attach.

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting From the COVID-19 Pandemic	Docket No. E015/M-20-_______ **PETITION FOR APPROVAL**

SUMMARY

Minnesota Power ("the Company") respectfully submits this Petition to the Minnesota Public Utilities Commission ("Commission") pursuant to Minn. Stat. § 216B.10 and Minn. Rules 7825.0300, subp. 4. Minnesota Power requests authority to track and record as a regulatory asset lost large industrial customer revenues net of offsetting revenues from market sales ("Net Lost Revenues") that have been incurred because two of its large industrial customers—United States Steel's Keewatin Taconite mine ("Keetac") and the Verso Duluth paper mill ("Verso")—have indefinitely idled operations due to the COVID-19 global pandemic. The loss of these two customers to Minnesota Power has been the equivalent of losing its entire residential customer class in the course of a few months. In addition, fuel cost reductions resulting from these lost sales are already tracked as part of the existing Fuel Adjustment Clause methodology and will flow to customers, while Net Lost Revenues are not being captured. In light of the financial health impacts of this situation, Minnesota Power requests authorization to track—beginning on September 1, 2020—and recover the Net Lost Revenues, in an amount found to be reasonable and prudent by the Commission in the next rate case or other appropriate proceeding. Minnesota Power commits that it will propose appropriate recovery mechanism alternatives for Commission consideration and approval in the Company's next general rate case or in a separate proceeding no later than February 1, 2022. Finally, Minnesota Power respectfully requests that the Commission resolve this Petition by June 1, 2021. This will allow the Company to book Lost Revenues in a regulatory asset and incorporate Commission decisions into rate case planning.

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting From the COVID-19 Pandemic	Docket No. E015/M-20-_______ **PETITION FOR APPROVAL**

I. INTRODUCTION

In this Petition for Approval of Minnesota Power's Request to Track and Defer Lost Large Industrial Customer Sales Resulting from the COVID-19 Pandemic ("Petition"), Minnesota Power respectfully requests that the Commission authorize the Company to track and record as a regulatory asset the net of lost revenues and offsetting revenues from market sales ("Net Lost Revenues") resulting from the COVID-19 pandemic-related indefinite idling of Keetac and Verso, and defer these amounts for recovery to Minnesota Power's next rate case or other appropriate proceeding. Specifically, Minnesota Power commits that it will propose appropriate recovery mechanism alternatives for Commission consideration and approval in the Company's next general rate case or in a separate proceeding no later than February 1, 2022.

As the Commission is aware, the COVID-19 global pandemic has had far-reaching effects on all Minnesotans. For Minnesota Power and its customers, largely in northeastern Minnesota, the social, economic, health-and-safety, and even logistical impacts have been extensive. And for those businesses and industries that were already struggling, such as the paper industry and portions of the steel industry – as well as those individuals and companies whose business depends on these industries – the ramifications have been particularly difficult. To protect their employees and in light of the industry impacts of the pandemic, several of Minnesota Power's largest industrial customers closed their doors for a period of 2020.

Further, most of Minnesota Power's large industrial customers periodically submit demand nominations indicating their intended energy usage in the forthcoming three or four-month period, with one or two-months advance notice. This summer, after the Company proposed to resolve its 2019 rate case, both Keetac and Verso submitted nominations indicating their intentions to remain idled indefinitely. While these businesses have suspended operations in the past, in light of the long-term effects of the pandemic combined with ongoing difficulties, Verso has indicated publicly that it is unlikely to come back online unless market conditions improve or it finds a buyer.[1] And Keetac's

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[1] *Verso Indefinitely Idling Duluth Paper Mill*, https://www.startribune.com/verso-indefinitely-idling-duluth-paper-mill-putting-235-out-work/571129932/#:~:text=Verso's%20Duluth%20mill%20will%20be,pandemic%2C%20the%20company%20announced%20Tuesday.&text=DULUTH%20%E2%80%93%20Verso%20Corp.%20is%20idling,of%20the%20mill%20in%20question (June 9, 2020).

operations remain idled even as other Minnesota taconite facilities have resumed operations.[2]

Minnesota regulators have recognized, in several respects, the impacts of the COVID-19 pandemic on both Minnesotans and the regulated electric and gas utilities that serve them. Minnesota Governor Walz has issued several Emergency Executive Orders, declaring a peacetime emergency to protect Minnesotans from the novel coronavirus disease. The Commission previously requested that all utility providers work with affected customers and communities to undertake actions to protect customers for the duration of the national security or peacetime emergency. Earlier this year, the Commission approved a joint petition submitted by Minnesota natural gas and electric utilities to track, record, and defer expenses and other financial impacts related to the COVID-19 pandemic (the "Joint Petition").[3] The Commission recently decided to amend its Order in the Joint Petition proceeding to allow the tracking and deferral of COVID-19 related expenses up to 30 days after the end of the peacetime emergency in Minnesota declared by Governor Tim Walz, but did not preclude utilities from independently seeking permission to track and defer financial impacts beyond that period or outside of the scope covered by the Joint Petition if supported by the circumstances. Finally, in the spring of 2020 Minnesota Power developed a path to resolve its then-pending rate case by withdrawing all cost increase requests and otherwise moving the recovery of asset-based wholesale margins to its Fuel Adjustment Clause.

Minnesota Power now submits this Petition, with good cause, to address the financial impacts that do not fall within the scope or timeline of the Joint Petition proceedings and Order,[4] and that were not foreseeable at the time of the Company's 2019 rate case. As discussed in more detail later in this Petition, Minnesota Power's loss of load associated with the closing of Keetac and Verso is equivalent to the loss of Minnesota Power's entire residential class. At the same time, fuel costs not incurred to serve Verso and Keetac, other customers, or market sales will flow to customers through the Fuel Adjustment Clause ("FAC"); without tracking the Net Lost Revenues, the Company will be disproportionately harmed. As a result of a pandemic that could not have been foreseen, Minnesota Power has suffered an unanticipated, unusual, and substantial loss in revenues that now appears likely to continue past the end of Minnesota Governor Tim Walz's peacetime emergency declaration.

The idling of Keetac and Verso has created a significant loss of revenue for Minnesota Power, whereas any realized savings relating to reduced fuel costs will flow through to customers through the FAC. To address this situation as efficiently as possible with the

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[2] *Keetac Sits Idle, Even as Other Mines Restart, Steel Industry Recovers,* https://www.duluthnewstribune.com/business/energy-and-mining/6687292-Keetac-sits-idle-even-as-other-mines-restart-steel-industry-recovers (Oct. 6, 2020).

[3] *In re Petition of the Minnesota Rate Regulated Electric and Gas Utilities for Authorization to Track Expenses Resulting from the Effects of the COVID-19 and Record and Defer Such Expenses into a Regulatory Asset* ("Joint Petition"), Order Approving Accounting Request and Taking Other Action Related to COVID-19 Pandemic ("Joint Petition Order"), Docket No. E,G-999/M-20-427 (May 22, 2020).

[4] Minnesota Power is following the Joint Petition Order for tracking all financial impacts within the scope of that proceeding.

least imposition on Minnesota Power's stakeholders, the Company proposes to track, record, and defer recovery of the Net Lost Revenues utilizing a regulatory asset starting on September 1, 2020, the date that Keetac and Verso's reduced nominations became effective. This solution would: (1) avoid the need for additional cost recovery requests in a broader rate case in early 2021; (2) minimize the regulatory expense associated with a near-term rate case; (3) allow the Company to recover the Net Lost Revenues deemed reasonable and necessary by the Commission in a future rate case or other appropriate proceeding; (4) accurately track the amount of Net Lost Revenues as a result of the idling of Keetac and Verso, including the ability to account for the possibility that one or both of these facilities restarts operations; and (5) permit the Commission and interested parties to assess the level of Net Lost Revenues in a future cost recovery proceeding. Such an authorization is reasonable, appropriate, and consistent with the public interest.

II. PROCEDURAL MATTERS

Pursuant to Minn. Stat. § 216B.16, subd. 1 and Minn. Rule 7829.1300, Minnesota Power provides the following required filing information.

A. Summary of Filing (Minn. Rule 7829.1300, subp.1)

A one-paragraph summary accompanies this Petition.

B. Service on Other Parties (Minn. Rule 7829.1300, subp. 2)

Pursuant to Minn. Stat. § 216.17, subd. 3 and Minn. Rule 7829.1300, subp. 2, Minnesota Power eFiles the Petition on the Department of Commerce - Division of Energy Resources ("the Department") and the Minnesota Office of the Attorney General - Antitrust and Utilities Division. A summary of the filing prepared in accordance with Minn. Rule 7829.1300, subp. 1 is being served on Minnesota Power's general service list.

C. Name, Address and Telephone Number of Utility (Minn. Rule 7829.1300, subp. 3(A))

Minnesota Power
30 West Superior Street
Duluth, MN 55802
(218) 722–2641

D. Name, Address and Telephone Number of Utility Attorney (Minn. Rule 7829.1300, subp. 3(B))

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E. Date of Filing and Date Proposed Rate Takes Effect (Minn. Rule 7829.1300, subp. 3(C))

This Petition is being filed on November 4, 2020. The effective date is the date of the Commission's Order or such other date as directed in the Commission's Order. Minnesota Power respectfully requests authority to account on a deferred basis lost large industrial customer sales.

F. Statute Controlling Schedule for Processing the Filing (Minn. Rule 7829.1300, subp. 3(D))

This Petition is made in accordance with Minn. Stat. § 216B.10, which grants the Commission jurisdiction over the accounting practices of public utilities. This statute does not prescribe a statutorily imposed time frame for a Commission decision. Furthermore, Minnesota Power's Petition falls within the definition of a "Miscellaneous Tariff Filing" under Minn. Rules 7829.0100, subp. 11 and 7829.1400, subps. 1 and 4, which allow response comments to be filed within 30 days, and reply comments to be filed no later than 10 days thereafter.

G. Utility Employee Responsible for Filing (Minn. Rule 7829.1300, subp. 3(E))

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H. Impact on Rates and Services (Minn. Rule 7829.1300, subp. 3(F))

This filing will have no immediate effect on upon Minnesota Power's base rates, but the Company would seek to recover the deferred lost revenues in its next general rate case or another appropriate proceeding.

I. Service List (Minn. Rule 7829.0700)

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III. BACKGROUND INFORMATION

The unexpected and unforeseen COVID-19 pandemic has wreaked havoc on global, national, and local economies. Specifically with respect to Minnesota Power, two of its large industrial customers, Keetac and Verso, were idled on a long-term, and possibly permanent, basis as a result of the pandemic.[5] Keetac and Verso were forecast to make up approximately 12 percent of Minnesota Power's retail kWh sales in 2020. Keetac and Verso's most recent nominations provided to Minnesota Power on August 1, 2020, effective on September 1, 2020, have reduced the Company's projected energy sales by one million kWh, or 11 percent, of retail kWh sales on an annual basis. To put this in perspective, the loss of kWh sold to Keetac and Verso is roughly equivalent to the total amount of kWh sold to Minnesota Power's entire residential class on an annual basis. In light of this unusual, unforeseeable, unavoidable, and financially significant loss of energy sales and revenue, good cause exists for the Commission to authorize Minnesota Power to track and record COVID-19 related lost revenues from Keetac and Verso and to defer the recovery to the next rate case or other appropriate proceeding.

A. COVID-19

In the first few months of 2020, the unprecedented and unanticipated COVID-19 pandemic began to spread across the globe. To slow the virus and to protect the health and well-being of people within the country, federal, state, and local governments issued orders and recommendations encouraging social distancing and prohibiting large gatherings of people.

On March 13, 2020, the President of the United States declared a National Emergency due to COVID-19.[6] That same day, Governor Tim Walz issued Executive Order ("EO") 20-01 declaring a peacetime emergency to protect Minnesotans from the COVID-19 pandemic. Eventually, every state in the country declared a similar state of emergency.

Within the following days, additional EOs were issued in Minnesota closing schools and places of public accommodation, among other limitations intended to protect the public health and the State's healthcare system. On March 25, 2020, Governor Walz issued EO 20-20 requiring all persons living in Minnesota to stay home ("Stay at Home Order"), with the exception of certain Critical Sector employees.[7] EO 20-20 further directed "all state agencies to continue to coordinate expeditiously in developing plans to mitigate the

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5 "Verso Continues to Explore Options for Idled Duluth Paper Mill," https://www.duluthnewstribune.com/business/manufacturing/6605873-Verso-continues-to-explore-options-for-idled-Duluth-paper-mill (Aug. 6, 2020); "All 3 Operating Iron Range Mines report COVID-19 Cases," https://www.duluthnewstribune.com/business/energy-and-mining/6576375-All-3-operating-Iron-Range-mines-report-COVID-19-cases (Jul. 15, 2020).

6 Available at https://www.whitehouse.gov/presidential-actions/proclamation-declaring-national-emergencyconcerning-novel-coronavirus-disease-covid-19-outbreak/.

7 EO 20-20, pp. 1-2.

economic effects of closures and restrictions necessitated by this peacetime emergency, including potential financial support, regulatory relief, and other executive actions."[8]

On April 8, 2020, the Stay at Home Order was extended in EO 20-33, which continued to direct all State agencies "to coordinate expeditiously in developing plans to mitigate the economic effects of closures and restrictions necessitated by this peacetime emergency, including potential financial support, regulatory relief, and other executive actions."[9]

On April 30, 2020, EO 20-48 rescinded the Stay at Home Order and allowed additional non-Critical Sector employees to return to work beginning on May 3, 2020, as long as their employers established and implemented a COVID-19 Preparedness Plan.[10] EO 20-48 directed state agencies "to continue to coordinate expeditiously to develop plans to mitigate the economic effects of closures and restrictions necessitated by this peacetime emergency, including potential financial support, regulatory relief, and other executive actions."[11] EO 20-56 rescinded EO 20-48 and provided additional guidance on reopening businesses and limiting social gatherings and interaction.[12] Governor Walz provided further refinements on business restrictions and safely reopening the economy in EO 20-63 and EO 20-74. Most recently, on October 12, 2020, EO 20-92 extended the peacetime emergency through at least November 12, 2020.

The stay at home orders had far reaching impacts on the economic outlook for several industries. In particular, the dramatic reduction in travel resulted in significant reduction in demand for transportation fuels, which has continued beyond the initial issuance of the orders and resulted in a dramatic reduction in oil and natural gas drilling rigs[13], which consume a majority of steel tubular goods. In the retail shopping sector, the inability for most retail stores to be open for in-person shopping resulted in an overnight decline in the quantities of advertising paper needed for shopping advertisements.[14]

B. Gas and Electric Utilities' Joint Request to Track and Defer COVID-19 Expenses

On April 20, 2020, Minnesota regulated natural gas and electric utilities, including Minnesota Power, filed the Joint Petition requesting authority to track, record, and defer COVID-19 related expenses as a regulatory asset so that they could preserve the ability for each utility to request recovery in a future proceeding, subject to full Commission review.[15]

In approving the request for tracking and deferred accounting, the Commission found the following:

[8] *Id*., para. 11.
[9] EO 20-33, para. 11.
[10] EO 20-48.
[11] *Id*., para. 12.
[12] EO 20-56, pp. 2-10.
[13] https://www.reuters.com/article/us-usa-rigs-baker-hughes-idUSKCN2532NY
[14] https://afandpa.org/media/statistics/2020/06/16/american-forest-paper-association-releases-may-2020-printing-writing-monthly-report
[15] Joint Petition.

The Commission recognizes that the actions and other activities that utilities will likely need to take during this declared peacetime emergency may result in additional expenditures outside of the usual course of business to the utility as well as other financial impacts.

Mechanisms like deferred accounting are exceptions to traditional ratemaking practice, which uses a fully developed test year to provide the most accurate possible picture of the utility's total financial condition. Considering one expense in isolation, without considering where costs may have declined, carries risks of over-recovery that are seldom justified. Accordingly, deferred accounting is a practice that the Commission authorizes sparingly.

Deferred accounting is also inconsistent with the normal system of accounts for recording utility expenses. Pursuant to Minnesota Rule 7825.0300, utilities may request exception to the normal practices, which the Commission will grant if good cause is shown. Exceptions for the purpose of deferred accounting have been reserved for costs that are unusual, unforeseeable, and large enough to have a significant impact on the utility's financial condition. The practice has also been authorized in certain situations involving a public policy mandate. Utilities that have costs approved for deferred accounting must also always establish the costs' reasonableness and prudence.

The declaration of a peacetime public health emergency is an exceptional and unusual situation. Access to safe, reliable, and affordable utility service is essential to maintain public health and safety during this emergency. As a result, the Governor, the Commission, and the utilities have taken certain steps to ensure continuation of these essential services during this time.

Responding to these directives and other actions that utilities may need to take during this time may result in expenditures and other financial impacts outside of the utility's control. The Commission recognizes that COVID-19-related expenditures and other financial impacts are unusual, extraordinary, and infrequent. The Commission also recognizes that without recovery of these costs, a utility could suffer financial harm.

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Evaluation of the significance, prudence, reasonableness, and incremental nature of the costs will come later, at such time as individual utilities file petitions or request recovery in rate proceedings. At that time, the utility's COVID-19-related costs and revenues received can be appropriately reviewed for reasonableness and prudence.[16]

[16] Joint Petition Order at pp. 4-5.

The Commission further ordered the Joint Petitioners to make an initial filing of their proposed accounting methodology within 21 days of the Joint Petition Order. The Joint Petitioners filed Comments on June 10, 2020, describing the general categories of expenses and revenues that they intended to track, which generally fell within four high-level categories: uncollectible account expenses; other operating expense impacts (O&M, labor, etc.); revenue impacts; and other/miscellaneous.[17] Minnesota Power filed individual comments indicating how it planned to track financial impacts within these categories.[18] At that time, Minnesota Power did not seek to track lost sales to large industrial customers, but did notify the Commission that it may need to do so in the future:

> One item to note for Minnesota Power, as discussed in detail during the May 7, 2020, agenda hearing, is revenue impacts from loss of industrial customers. As with other operating and system attributes, the Company's large industrial customers are unique compared to other Minnesota utilities and may necessitate additional deferred accounting categories and tracking.[19]

On September 24, 2020, the Commission held a meeting to address the ongoing implementation of its Order granting the authority to track and defer COVID-19 related expenses through the creation of a regulatory asset. At that meeting, the Commission passed a motion: 1) adopting the accounting and tracking methodology proposed by the Joint Petitioners; 2) requiring the utilities to provide prorated revenue requirement comparisons of approved test year amounts to 2020 actual amounts of tracked items for the pandemic related period approved by the Commission; 3) requiring all utilities to track budgeted activities that will not take place as a result of the pandemic and correspond to savings and reduced expenses; and 4) allowing deferred COVID-19 related expenses to be tracked through the end of the peacetime emergency in Minnesota, plus 30 days. Based upon the discussion of the Commission prior to the vote, the decision would not preclude any party from independently seeking to track COVID-19 economic effects beyond the time limit established for the purposes of the Joint Petition Order.

At the time of this submission, the Commission's Order resulting from the September 24, 2020, Commission meeting has not been issued. Accordingly, the foregoing discussion is based on the Company's participation in the meeting itself.

C. Minnesota Power's Rate Case

Minnesota Power filed a general rate case on November 1, 2019 ("2019 Rate Case"), seeking an annual rate increase of approximately $66 million, or 10.59 percent, with a 2020 test year. On December 23, 2019, the Commission set an interim base rate increase of approximately $36 million, or 5.8 percent. The rate increases sought by Minnesota Power were driven by a revenue deficiency that was caused, in large part, by the loss of asset-based margin revenues due to the end of a significant contract, as well as decreased sales to its large industrial customers and cost inflation. The Company also

[17] Joint Petition, *Joint Petitioners' Comments – Attachment A* (June 10, 2020).
[18] Joint Petition, *Minnesota Power's Comments* (June 10, 2020).
[19] *Id*.

sought recovery of increased capital and operations and maintenance ("O&M") costs, as well as an increased rate of return on assets.

As discussed in that case and long before, it is well-established that Minnesota Power has one of the highest industrial customer concentrations of any investor owned utility in the country. According to the Energy Information Administration, Minnesota Power had the ninth highest industrial customer concentration out of 179 investor owned utilities in the country. Prior to the COVID-19 pandemic, industrial customers represented approximately 74 percent of Minnesota Power's retail kWh energy sales, with residential and commercial customers representing only 12 percent and 14 percent of sales, respectively. For comparison, the average utility has 25 percent retail kWh energy sales to industrial customers, 39 percent to residential customers, and 36 percent to commercial customers. As a result of its high industrial load, Minnesota Power has a higher system economic efficiency, but also an increased risk profile due to the variation in its revenues from changes in this industrial load.

Minnesota Power's large industrial customers primarily consist of taconite producers and graphic paper and pulp producers in northern Minnesota. When fully operational, these customers use large quantities of energy, typically operate around the clock, and are subject to significant macro-economic cycles as well as unexpected and significant changes to the economy.

Minnesota Power's large industrial customers nominate their firm demand levels based upon the electric load expectations for each month, with the frequency and length of nomination periods varying depending on each customer's contract. These nominations must be equal to or above the Minimum Service Requirement ("MSR") set forth in each customer's electric service agreement.[20]

As a result of Minnesota Power's uniquely high concentration of large industrial customers, economic downturns and industry capacity closures can have a disproportionately large impact on Minnesota Power's sales and revenues compared to the average utility, especially when they occur suddenly and unexpectedly.

Within months of Minnesota Power's rate case filing, COVID-19 began to spread across the world. The pandemic and the local and national executive orders designed to limit the spread of COVID-19 have had, and continue to have, a significant impact on the nation's economy as businesses are shuttered or idled, and employees are furloughed or laid-off.

Nonetheless, this spring Minnesota Power's large industrial customers submitted full nominations and did not initially indicate any long-term plan to idle operations. While multiple plants idled temporarily during the late spring and summer, several were up and running again before subsequent nominations were due August 1.

[20] See MPUC Docket E015/M-08-1344 and Minnesota Power's September 29, 2009 Compliance Filing that discusses various terms and provisions within electric service agreements and the relationship with the Large Power Service Schedule tariff.

In the spring of 2020, as the pandemic unfolded, Minnesota Power was mindful of the need to protect the safety and health of its employees, customers, and stakeholders while also bearing in mind its responsibility to support and maintain the financial health of the Company. Based on the circumstances known at the time, which included the then-full nominations of its largest customers, the potential to resolve the largest driver of the rate case, and the well-being of its stakeholders, Minnesota Power worked out a rate case resolution with most interested stakeholders, and filed a Petition with the Commission on April 23, 2020, that would allow the Company to withdraw the pending rate case, and to discontinue and refund interim rates.[21]

Minnesota Power's rate case resolution was focused on resolving the largest driver of that rate case: the expiration of Minnesota Power's 10-year, 100 MW asset-based power market sales contract with Basin Electric Power Cooperative ("Large Market Contract") on April 30, 2020, significantly reducing the Company's asset-based margins. The margins previously earned by Minnesota Power on this transaction had provided significant ratepayer benefit through the contractual term, but the expiration of the Large Market Contract caused Minnesota Power's annual asset-based margins to decline from $35.8 million to $10 million – a large portion of the Company's overall revenue deficiency for a 2020 test year.

Rather than pursuing all aspects of its rate case in light of the global pandemic, Minnesota Power proposed restoring rates through May 1, 2020, to the levels set in the 2016 Rate Case, and returning to ratepayers the interim rate increase collected through that date. Minnesota Power further requested that its recovery for asset-based margins be moved from base rates to its fuel clause adjustment effective May 1, 2020, which would allow the Company's overall rates (base rate plus fuel clause adjustment) to more accurately reflect the actual asset-based margins instead of using the projected margins from the 2016 Rate Case that included the Large Market Contract. Minnesota Power would additionally maintain its current rate design and reserve requested changes for future proceedings. Finally, Minnesota Power agreed that it would not initiate a rate case until November 1, 2021, unless any of its EITE customers shut down or reduced demand by 50 megawatts (MW) for three months or more. Upon that occurrence, and with 90-days' notice to the Commission, Minnesota Power could file a rate case as early as March 1, 2021.

Keetac idled operations at its taconite facility in May 2020 due to the downturn in demand for iron and steel caused by the COVID-19 pandemic. U.S. Steel, which owns Keetac, explained: "After further study of current demand, we must make additional adjustments to our raw materials production and indefinitely idle our Keetac facility to respond to the sudden and dramatic decline in business conditions resulting from the worldwide COVID-19 pandemic."[22] However, because Keetac had already nominated its firm demand levels

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[21] *In the Matter of the Emergency Petition of Minnesota Power for Approval to Move Asset-Based Wholesale Sales Credits to the Fuel Adjustment Clause and Resolve Rate Case*, Docket No. E015/M-20-429, Petition (April 23, 2020).

[22] https://www.duluthnewstribune.com/business/energy-and-mining/5090981-US-Steel-will-idle-Keetac-lay-off-375-employees

through August 31, 2020, Minnesota Power's revenue losses from Keetac were mitigated, though still overall lower, due to the idling.

In parallel, Verso idled its Duluth paper mill at the end of June, 2020. Verso stated in a Securities and Exchange Commission filing that its "decision to reduce its production capacity was driven by the accelerated decline in printing and writing paper demand resulting from the COVID-19 pandemic," and that the "stay-at-home orders have significantly reduced the use of print advertising in various industries, including retail, sports, entertainment and tourism."[23] Because Verso had nominated its firm demand levels through August 31, 2020, before idling the facility, Minnesota Power's revenues from kWh sales to Verso did not immediately reflect the lowered demand for, and use of, power that resulted from the idling.

In orders issued June 30, 2020, and August 8, 2020, the Commission approved Minnesota Power's rate case resolution, with conditions. In short, the resolution of Minnesota Power's 2019 Rate Case resulted in the Company eliminating the approved 5.8 percent interim rate increase and withdrawing its request for a permanent rate increase of 10.59 percent. As a result of moving the asset-based margins from the calculation of base rates into the fuel clause adjustment, and accounting for the loss of asset-based margins from the Large Market Contract, overall rates (base rate plus fuel clause adjustment) increased by approximately 4.1 percent compared to what they would have been under the 2016 Rate Case Order. This is lower than the 2019 Rate Case interim rates, and, given that the loss of the Large Market Contract was only one driver of Minnesota Power's revenue deficiency, it is also likely lower than the probable final rates that would have been established in the 2019 Rate Case. The 2019 Rate Case resolution only provided for recovery of approximately $26 million of Minnesota Power's projected $66 million revenue deficiency, leaving approximately $40 million in pre-COVID-19 revenue deficiency to address in the next rate case. With the loss of Keetac and Verso, that test year revenue deficiency has increased to approximately $70 million.

The resolution of the 2019 Rate Case provided Minnesota Power with enough relief to permit the Company to withdraw the rate case and commit to delaying a new rate case. It also benefited ratepayers by reducing the overall rate increase from the 5.8 percent interim rate increase to an approximate 4.1 percent increase due to moving asset-based margin recovery from base rates to the fuel clause adjustment.

D. Keetac and Verso Idling

Meanwhile, many of Minnesota Power's large industrial customers saw a steep drop in demand for their products, including taconite and paper. Over time, the longer-term effects of the pandemic began to emerge. The capacity utilization rate of the domestic steel industry dropped from a healthy level near 80 percent to a bottom of 50 percent,

[23] http://app.quotemedia.com/data/downloadFiling?webmasterId=101533&ref=115065412&type=HTML&symbol=VRS&companyName=Verso+Corporation&formType=8-K&dateFiled=2020-06-09&CK=1421182

and at the time of this writing has still not reached 70 percent[24]. Graphic paper demand also plummeted, with demand reductions of approximately 40 percent[25] at the bottom, and recovering to a level that is still 20 percent below normal demand levels.

On August 1, 2020, United States Steel submitted its contractual nomination for the period starting September 1, 2020, which reflected the continued idling at Keetac through reducing its nomination level from **[TRADE SECRET BEGINS** [redacted] **TRADE SECRET ENDS]** MW down to an average level of **[TRADE SECRET BEGINS** [redacted] **TRADE SECRET ENDS]** MW, reflective of United States Steel peak demand needs with Minntac operating and Keetac idled. This nomination level is applicable through December 31, 2020, but based upon information provided by Keetac, the idling is expected to last considerably longer. United States Steel has indefinitely idled Keetac as well as some of their steelmaking facilities and state that they regularly adjust operating levels in response to their market sales. "We currently expect two U.S. blast furnaces that were idled in response to COVID-19 to remain temporary idle for the remainder of the year. As a result, we also expect our Keetac iron ore mine to remain indefinitely idle, and we continue to extend our coking times at Clairton to better manage inventory," stated Christine Breves during US Steel's second quarter 2020 Earnings Call.[26] The Duluth News Tribune reported, "Despite a recovering economy and steel industry, U.S. Steel continues to consider Keetac an indefinite idle with no callback date set for its employees, even as the other mines return to production and bring back employees."[27] During the US Steel third quarter 2020 earnings call on October 30, 2020, CEO Dave Burritt said, "We are analyzing timing around restarting our Keetac iron ore pellet facility." In answering an investor question Burritt went on to say, "But for right now, we have to figure out, does it make sense to go through the – how long we'll keep Keetac open or not, if we have to figure out, does it make sense to do it right now. And obviously, there's some decisions to be made, but it's going to be customer-driven."[28]

On August 1, 2020, Verso reduced its nomination level starting on September 1, 2020, from **[TRADE SECRET BEGINS** [redacted] **TRADE SECRET ENDS]** MW down to its MSR, which is **[TRADE SECRET BEGINS** [redacted] **TRADE SECRET ENDS]** MW. This nomination is applicable through December 31, 2020, but based upon information provided by Verso, the idling is expected to last considerably longer, and perhaps permanently. The continued downward spiral of consumption of many grades of white paper has resulted in dramatically reduced demand for supercalendered paper, the product that the Verso

[24] https://news.yahoo.com/us-steel-output-upswing-demand-114511681.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAADdFmn8PS2a9_cHI14RUQNdXmCDn1itUDKX-IbDXsPKyga5MFJJOliB39NB0aWWHAPfyTjIfdcyL2QIuJjBx3cv1L739iFvL2p9vK2rFBBYCOqvh5LNDi8FrA6C1CieG6dFTfxbR5f9RsWoW75QFLWOsfBMQCHYwNJc3fari3Dh

[25] https://afandpa.org/media/statistics/2020/07/16/american-forest-paper-association-releases-june-2020-printing-writing-monthly-report

[26] https://www.fool.com/earnings/call-transcripts/2020/07/31/united-states-steel-corp-x-q2-2020-earnings-call-t.aspx

[27] https://www.duluthnewstribune.com/business/energy-and-mining/6687292-Keetac-sits-idle-even-as-other-mines-restart-steel-industry-recovers

[28] https://seekingalpha.com/article/4383271-united-states-steels-x-ceo-dave-burritt-on-q3-2020-results-earnings-call-transcript?part=single

Duluth Mill has made since its startup in 1986. As such, Verso Corporation has said they are pursuing several options for the Duluth mill, as well as another mill they closed in Wisconsin Rapids, Wisconsin, including sale to parties perhaps interested in repurposing the mill to make different products, or dismantling the mill.

Although several other large industrial customers idled or cut production at mines and plants in response to the COVID-19 pandemic, all such customers other than Keetac and Verso have either partially or fully returned production to pre-pandemic levels. As a result, the large industrial customers other than Keetac and Verso did not drastically reduce their nominations going forward, which has minimized the economic impact of the temporary drop in production. Consequently, despite the expectation that other customers will continue to experience cyclicality in their operation, and aware of the continued decline of the paper industry and the real possibility of future rationalization in NE Minnesota paper production, Minnesota Power will only be significantly affected by the ongoing idling of Keetac and Verso at this time.

The idling of Keetac and Verso results in a loss of approximately one million kWh in sales on an annual basis, which is approximately 11 percent of Minnesota Power's retail kWh sales. Based upon its contracts with Keetac and Verso, this equates to a reduction in non-fuel revenue (excluding cost recovery riders) of approximately $32 million annually or approximately 7 percent of Minnesota Power's non-fuel retail revenue. This loss is tempered by the ability to make market sales of the energy available due to loss of load, which in 2021 are estimated to result in $2 million of revenue, net of fuel and associated expenses.

Minnesota Power's unusually small concentration of residential customers has also detrimentally impacted the Company relative to the average utility during the COVID-19 pandemic. The Stay at Home Order resulted in increased kWh sales to residential customers, with many utilities seeing increased sales of 3 to 5 percent in their residential class.[29] Increased sales to residential customers result in the highest proportional revenue gain for a typical utility, as these sales are usually priced at the highest rate per kWh. As a result of this phenomenon, the average utility saw a revenue gain that offset the revenue loss from its commercial and industrial customers. Although Minnesota Power's sales to residential customers also increased slightly, since they only represent 12 percent of its retail kWh sales, this slight revenue contribution is dwarfed by the revenue loss of 11 percent of its retail kWh sales due to the idling of Keetac and Verso, and has been effectively offset by reduced nominations from large industrial customers other than Keetac and Verso.

If Keetac and Verso remain idled through the end of the year, Minnesota Power's net income would be negatively impacted by approximately $8 million and $21 million in 2020 and 2021, respectively, compared to if the facilities continued to operate at forecasted

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[29] See, for example, Xcel Energy's Wolfe Research Conference dated October 1, 2020. http://investors.xcelenergy.com/Cache/IRCache/0dd37964-c929-7ade-1f79-eecd9e8b5421.PDF?O=PDF&T=&Y=&D=&FID=0dd37964-c929-7ade-1f79-eecd9e8b5421&iid=4025308

levels. This would also result in expected return on equity (ROE) decreases for 2020 and 2021. Minnesota Power's expected jurisdictional ROE for 2020 is expected to drop to 7.66 percent – even with the rate case resolution – compared to 8.31 percent if the facilities continued to operate at forecasted levels. If Verso and Keetac remain idled throughout 2021, Minnesota Power's expected 2021 jurisdictional ROE will drop from 7.66 percent to 5.93 percent. These are significantly lower than Minnesota Power's authorized ROE of 9.25 percent for that period.

In addition to net income and ROE impacts, Minnesota Power's FFO/Debt would also be negatively impacted, which in turn could put pressure on the Company's credit ratings and result in limited access to capital markets. ALLETE was downgraded in April 2020 by S&P[30], citing that they …"expect that the company's credit measures [would] continue to be pressured by weaker economic conditions related to uncertainties around COVID-19" and that "ALLETE's ability to earn its authorized returns in the event of a material loss of load is challenged by the lack of a revenue decoupling mechanism as well as lower wholesale electricity prices in the Midcontinent Independent System Operator (MISO) region." Moody's also issued an opinion on ALLETE's credit ratings (Baa1 – Stable) in April 2020[31], stating credit challenges include "material exposure to commodity sensitive industrial customers experiencing uncertainty because of COVID-19." Moody's also reported on factors that could lead to a downgrade as stated below:

> "ALLETE could be downgraded if there is a decline in the credit supportiveness of the Minnesota regulatory framework including a materially negative decision in the company's pending rate case. A downgrade could occur if there is a substantial deterioration in the US macroeconomic condition resulting in an ongoing drop in electricity volumes that are not offset by off-system sales or other means. A weakening of financial metrics including CFO pre-[working capital] to debt remaining below 19% on a sustained basis could also result in a rating downgrade."

Therefore, if Keetac and Verso remain idled, Minnesota Power's FFO/Debt would be impacted downward by approximately 0.7 percent and 1.9 percent to 16.6 percent and 15.3 percent in 2020 and 2021, respectively. As noted above by Moody's, a downgrade of ALLETE's credit ratings could occur if CFO pre-[working capital] to debt drops below 19 percent for a sustained period of time. And a sustained reduction in Minnesota Power's ROE could also lead to a credit rating downgrade due to the appearance that the Minnesota Regulatory framework is unsupportive.

E. Potential Need for Rate Case

The significant and unexpected loss of power sales due to the pandemic-related idling of Keetac and Verso is projected to result in a substantial revenue deficiency for Minnesota

[30] S&P Global Ratings, *ALLETE Inc. Downgraded to 'BBB' On Expected Weaker Financial Measures; Outlook Stable*; April 22, 2020.
[31] Moody's Investors Service: Credit Opinion; *ALLETE Inc. Update to credit analysis*; April 30, 2020.

Power in both 2020 and 2021. In order to account for that revenue deficiency, Minnesota Power will likely need to file a general rate case as early as March 1, 2021.[32] As a more efficient alternative proposed to address the narrow issue of the indefinite loss of these two customers, Minnesota Power requests authorization to track the Keetac and Verso Net Lost Revenues and recover those losses in an amount found to be reasonable and necessary by the Commission in Minnesota Power's next rate case or other appropriate proceeding. This would allow Minnesota Power to maintain existing rates for its customers during this time of economic uncertainty, while protecting the Company's financial health and preserve its opportunity to recover the lost Keetac and Verso revenues once the economy begins to stabilize. The Commission would also maintain its authority to determine during a future proceeding the reasonableness and prudence of the amount of Net Lost Revenues that Minnesota Power may recover.

IV. PROPOSED TRACKER

In order to accurately determine the Net Lost Revenues as a result of the idling of Keetac and Verso, Minnesota Power has identified the following information that should be tracked beginning on September 1, 2020, the date that Keetac and Verso's reduced nominations took effect:

- Lost revenue – non-fuel revenue lost due to the idling of Keetac and Verso; and
- Sales due to loss of load – revenue from sales, net of fuel and associated MISO costs, which result from selling the energy that would have been sold to Verso and Keetac, had they continued to operate.

Although fuel expense is an important cost item that is impacted by the idling of Verso and Keetac, that expense flows through the retail rider for fuel and purchased energy charge ("fuel clause"). As a result, any increases or decreases to fuel cost will automatically flow to customers and do not need to be tracked as part of this request. Notably, customers will benefit from accounting for reduced fuel expenses in the fuel clause, while the Company will not receive the reciprocal benefit of being able to recover for the associated lost revenues unless it is allowed to implement a tracker and regulatory asset through this proceeding. This underscores the importance of this tracker request.

Minnesota Power proposes to track the revenues lost due to the idling of Verso and Keetac by comparing non-fuel 2020 pre-COVID sales projections ("2020 Projected Sales") reflected in our 2019 rate case filing, to non-fuel revenue actual sales during the deferred accounting period. The 2020 Projected Sales are similar to 2019 actual sales and are the best forecast of what sales would have been had Verso and Keetac not been idled in response to the COVID-19 pandemic. The 2020 Projected Sales are also lower than the sales incorporated in the 2017 test year in the Company's 2016 rate case, so using the 2020 Projected Sales as the baseline will result in lower Net Lost Revenues.

[32] Pursuant to the stay out provision approved in the 2019 Rate Case resolution, Minnesota Power may file a rate case as early as March 1, 2021, if any of its EITE customers shut down or reduce demand by 50 MW. This condition has been satisfied due to the idling of Verso and Keetac.

For simplicity, the Company proposes to use the 2020 Projected Sales, divided by 12, to develop the monthly basis to compare to monthly actual sales in the deferred accounting period.

The Company also proposes to track offsetting market sales it may be able to make to reduce the impact on existing customers. The lost sales revenue is partially offset by “sales due to loss of load,” which are sales the Company makes when it sells the excess energy from customers who reduce their demand levels below the levels set in the most recent rate case. Sales due to loss of load do not flow through the retail fuel clause, so customers would not get the benefit of these revenues unless they are captured in the tracker. By capturing both lost revenues and additional market sales, Minnesota Power proposes a balanced tracking mechanism that captures both sides of the equation – with fuel savings already captured in the FAC.

Overall, however, revenue on market sales, net of fuel and associated MISO costs, is expected to be much lower than what Verso and Keetac would have paid. In the current low-priced wholesale market, the lost revenue due to the load reduction cannot be made up in the wholesale market. Although this mitigation strategy was fairly effective in the past, it has become more difficult to recover revenue losses due to a customer downturn because markets have been declining and electric costs have been increasing. Thus, the potential size and scale of the Net Lost Revenues – outside the Company’s control – further underscores the need for this tracker.

For sales due to loss of load, each month the level of loss of load is determined by comparing large power customers’ current monthly nominations to the load that was approved in the 2016 rate case. An amount of load below the 2016 rate case baseline is classified as loss of load. The lost load is calculated on a monthly MWh basis to determine the MWhs that can be sold, and these sales are made in a batch. For the purposes of the proposed tracker, sales due to loss of load for Keetac and Verso will be allocated on a pro rata basis based upon the amount of MWh each customer is below 2016 rate case baseline levels.

Minnesota Power has used its proposed tracking methodology to calculate the September 2020 actual and a full year projection Net Lost Revenues, which is set forth in the following Table 1.

Table 1.

Impact Due to Idling	**Full Year Projection** MWh	**Full Year Projection** Net Revenue	**September 2020** MWh	**September 2020** Net Revenue
		Thousands		Thousands
	[TRADE SECRET BEGINS			
Verso	[redacted]	[redacted]	[redacted]	[redacted]
Keetac	[redacted]	[redacted]	[redacted]	[redacted]
				TRADE SECRET ENDS]
	(1,036,384)	(31,651)	(85,658)	(2,402)
Sales Due to Loss of Load				
	[TRADE SECRET BEGINS			
Verso	[redacted]	[redacted]	[redacted]	[redacted]
Keetac	[redacted]	[redacted]	[redacted]	[redacted]
				TRADE SECRET ENDS]
	883,536	1,626	70,560	61
Net Impact	(152,848)	$(30,025)	(15,098)	$(2,341)

Pursuant to this methodology, the idling of Keetac and Verso is expected to result in Net Lost Revenues of over $30 million annually, or approximately 6 percent of Minnesota Power's non-fuel retail revenue (excluding cost recovery riders). If either or both of these facilities restart operations while the tracker is in effect, the actual lost revenues compared to the 2020 Projected Sales will be reduced, as will the offsetting sales due to loss of load. As a result, the Company's proposed tracker will only account for actual Net Lost Revenues, and will accurately reflect the operating status of Keetac and Verso.

V. STANDARD OF APPROVAL FOR TRACKING LOST SALES

A. Lost Sales Recovery Mechanisms

This request to track the loss of revenue resulting from the idling of Keetac and Verso is a judicious and narrowly-tailored request of the Commission. Specifically, the Company requests an opportunity to create trackers for the Net Lost Revenues associated with the idling and reduced nominations of Keetac and Verso due to the COVID-19 pandemic. Minnesota Power requests authority to establish trackers and permission to record and defer for a future general rate case or other appropriate proceeding subject to the Commission's determination that the amount of the Net Lost Revenues was reasonable, prudent, and appropriate for recovery.

The Commission may grant a utility's petition for "approval of an exception to a provision of the system of accounts," such as a request for deferred accounting, if "good cause" is shown.[33] "Deferred accounting … is 'a regulatory tool used primarily to hold utilities harmless when they incur out-of-test-year expenses that, because they are unforeseen, unusual, and large enough to have a significant impact on the utility's financial condition, should be eligible for possible rate recovery in the next rate case.'"[34]

Similarly, the Commission has authorized sales forecast true-ups and trackers in multiple circumstances. In 2019, the Commission approved alternative rate recovery mechanisms – and specifically a sales forecast tracker – in order to delay interim and final rate increases in Xcel Energy's general rate case.[35] In that proceeding, the Commission approved the continuance and expansion of Xcel Energy's sales true-up mechanism that would "ensur[e] that the utility will recover the revenue requirement established in a rate case even if the sales forecast over- or underestimates actual sales."[36] The Commission stated that approving the true-up petition would have the benefit of minimizing the immediate effect on rates in comparison to the rate increase that ratepayers would likely experience under interim rates in a rate case, while also ensuring that Xcel Energy was able to earn a reasonable return.[37] On September 15, 2020, Xcel Energy filed a petition asking, in part, that the Commission approve the sales true-up mechanisms into 2021 in order to avoid a 2020 rate case filing.[38]

The sales true-up mechanism approved for Xcel Energy is not the only Commission-approved means of tracking or "truing up" sales forecast variability between rate cases. Decoupling under Minnesota Statute § 216B.2412, subd. 1 is frequently used in Minnesota to address lost sales for various reasons. For example, on June 9, 2014, the Commission authorized CenterPoint Energy ("CPE") to implement a full Revenue Decoupling Rider in order to allow CPE to recover its authorized revenues for non-fuel costs, regardless of changes in sales or the drivers for those changes. In addition to removing CPE's disincentive to promote energy efficiency (which would result in lower energy sales), the revenue decoupling mechanism has also insulated CPE from significant revenue losses due to unexpected losses in sales, such as during the current pandemic.

Finally, the Commission has authorized the tracking of gains or losses in sales resulting from changes in industrial customer businesses so that tracker revenue or refunds may be authorized in a future rate case or rider filing, such as for the Energy Intensive Trade-Exposed ("EITE") rate statute.[39]

Consistent with these various means of addressing sales forecast variability and the act-of-God nature of a global pandemic, Minnesota Power is requesting an opportunity to

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[33] Minn. R. 7825.0300, subp. 4.
[34] *In re Xcel Energy's Petition for Approval of Electric Vehicle Pilot Program*, Dkt. Nos. A19-1785 and A20-0116, at 29 (Minn. Ct. App. Sept. 21, 2020) (unpublished) (quoting Commission Order) ("*In re Xcel Energy EV Petition*").
[35] *In re Northern States Power Company d/b/a Xcel Energy Petition for Approval of True-Up Mechanisms*, Docket No. E-002/M-19-688, at 8-9 (Mar. 13, 2020).
[36] *Id*. at 3.
[37] *Id*. at 8.
[38] *In re Inquiry into Xcel Energy Investments That May Assist in Minnesota's Economic Recovery from the COVID-19 Pandemic*, Docket No. E,G002/M-20-716 (Sept. 15, 2020).
[39] Minn. Stat. § 216B.1696, subd. 2(d).

track lost industrial sales until interim rates are placed in effect in its next rate case or recovery is allowed through an alternative proceeding establishing a sales true-up or revenue decoupling mechanism for the Company. Minnesota Power further commits that it would seek recovery either in a rate case or separate proceeding initiated on or before February 1, 2022.

In the Company's November 2019 Rate Case filing, it requested a rate increase of $66 million which included both Keetac and Verso operating. The loss of Keetac and Verso accounts for an estimate $32 million in lost non-fuel revenue (excluding cost recovery riders), tempered by approximately $2 million in estimated revenue, net of fuel and associated expenses, from loss of load sales in 2021. This is a substantial loss, and yet is less than the Company's 2019 Rate Case interim rate request. By any standard, this is a material difference, warranting tracker treatment.

B. Deferred Accounting Recovery Standard

"Deferred accounting 'has … been permitted when utilities have incurred sizeable expenses to meet important public policy mandates.'"[40] Alternatively, the Commission has found "good cause" to grant a deferred accounting request because the costs sought to be deferred were: "(1) Related to utility operations for which ratepayers have incurred costs or received benefits; (2) Significant in amount; (3) Unforeseen, unusual, or extraordinary; and (4) Subject to review for reasonableness and prudence."[41] It is not necessary "that these four criteria must always be met before a deferred-accounting request may be granted."[42] Rather, the Commission may make a determination of "good cause" for deferred accounting based upon the four-factor test above, policy-goal justifications, or other criteria more appropriate for "the specific facts of the case."[43]

The Company believes that the exceptional circumstances surrounding the 2020 pandemic that could extend into 2021 warrant accounting for the loss of industrial sales Minnesota Power is encountering during the pandemic. Authorizing the tracking of Keetac and Verso Net Lost Revenues would allow Minnesota Power to avoid filing a rate case and seeking to increase interim and permanent rates in the near term, and would be consistent with the Commission's rationale for approving the settlement to Minnesota

[40] *In re Xcel Energy EV Petition*, at 29 (quoting Commission Order). *See also,* Interstate Power and Light Company's Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2008 Flood, *Order Authorizing Deferred Accounting Treatment Subject to Certain Conditions*, Docket No. E,G-001/M-08-728 (April 23, 2009); Xcel Energy's Petition for Approval of Deferred Accounting for Costs Incurred for the Web Tool and Time-of-Use Pilot Project, *Order Approving Deferred Accounting*, Docket No. E002/M-03-1462 (February 25, 2005); Xcel Energy's Petition for Approval of Deferred Accounting Treatment of Costs Related to the Mercury Emissions Reduction Act of 2006, *Order APPROVING Deferred Accounting of Certain Costs Attributed to Mercury Emission Reduction*, Docket No. E002/M-06-1315 (January 31, 2007); Xcel Energy's Petition for Approval of Two Proposed Energy Innovation Corridor Projects in the Central Corridor Utility Zone and Deferred Accounting Treatment for Costs Incurred After January 1, 2010, *Order Accepting Withdrawal, Granting Deferred Accounting, and Setting Filing Requirements*, Docket No. E002/M-09-1488 (December 27, 2010).

[41] *In re Petition by the Minn. Energy Res. Corp. for Approval of Farm Tap Customer-Owned Fuel Line Replacement Plan, Tariff Amendments, & Deferred Accounting*, Docket No. G-011/M-17-409, at 9-10 (Nov. 30, 2017).

[42] *In re Xcel Energy EV Petition*, at p. 31.

[43] *Id*.

Power's 2019 Rate Case – i.e. to lessen near-term rate increases while still allowing the utility the opportunity to earn a fair return.

Minnesota Power believes that the use of trackers for Net Lost Revenues from Keetac and Verso would be a better alternative for ratepayers than initiating a general rate case in the midst of the pandemic to seek higher interim and final rates to address all revenue deficiencies. The discussion below examines the deferred accounting criteria in light of the Company's present Petition.

VI. APPROPRIATENESS OF ESTABLISHING TRACKING MECHANISM

Minnesota Power will be incurring substantial lost revenues as a result of the idling of Keetac and Verso due to the COVID-19 Pandemic. Because these lost revenues were incurred as a result of the national and local efforts to slow the spread of COVID-19 and protect the health and welfare of citizens across the nation and world—an extremely important public policy mandate—there is good cause to allow tracking and deferred accounting of the lost revenues at this time. Additionally, the lost revenues were non-routine, substantial in size, and not representative of normal or predictable large industrial customer activity, and, consequently, could not have been foreseen and included in current rates and a deferral methodology is appropriate.

A. Minnesota Power Incurred Significant Financial Losses as a Result of the Implementation of Important Public Policy Mandates

Deferred accounting is appropriate when utilities have incurred substantial financial losses to meet important public policy mandates. The issuance of public health emergencies in Minnesota and across the country to protect public health and welfare from the effects of a pandemic, as well as to ensure that public utilities continue to provide essential services throughout the duration of the emergency, are eminently important public policy mandates. As the Commission has already determined:

> The declaration of a peacetime public health emergency is an exceptional and unusual situation. Access to safe, reliable, and affordable utility service is essential to maintain public health and safety during this emergency. As a result, the Governor, the Commission, and the utilities have taken certain steps to ensure continuation of these essential services during this time.

The Governor further recognized the importance of protecting people and entities from the economic effects of the COVID-19 pandemic and associated emergency orders by including in several executive orders a directive that government agencies "coordinate expeditiously in developing plans to mitigate the economic effects of closures and restrictions necessitated by this peacetime emergency, including potential financial support, regulatory relief, and other executive actions."[44]

Minnesota Power requests regulatory relief from the Commission at this time in the form of approval to track and defer the Net Lost Revenues due to the COVID-19 related initiation of long-term idling of Keetac and Verso. The authorization to track and defer will preserve Minnesota Power's opportunity to recover these lost revenues in a future rate case or other appropriate proceeding, while also reserving the Commission's authority to determine the reasonableness and prudence of the amount of Net Lost Revenues that may be recovered, and hopefully eliminate the need to file a general rate case in the near term. Creation of trackers and a regulatory asset for the Net Lost Revenues will also provide relief to ratepayers by delaying the implementation of higher interim and final rates associated with a rate case in the middle of the COVID-19 pandemic.

B. The Lost Revenues Sought to Be Deferred Satisfy "Good Cause" Standards

The revenues lost due to the idling of Keetac and Verso satisfy the four "good cause" standards commonly utilized by the Commission.

(1) Related to utility operations for which customers have incurred costs or received benefits

This criteria is clearly met given that all revenues and costs are directly related to Minnesota Power's obligation to "furnish safe, adequate, efficient and reasonable service"[45] to its customers within its service territory. The losses are directly related to customer operations.

Minnesota Power's customers have benefited from Keetac and Verso's contribution to the utility's high load factor, which has helped keep overall rates lower due to the ability to obtain higher utilization of resources. When these facilities were idled in response to the COVID-19 pandemic, however, Minnesota Power lost a considerable amount of revenue without being able to reallocate expenses among the remaining customers.

(2) Significant in amount

As discussed above, the load lost due to the idling of Keetac and Verso is equivalent to the total load of Minnesota Power's entire residential customer class. For the first nine months of 2020, Minnesota Power has lost an estimated $4.8 million in non-fuel revenue (excluding cost recovery riders) that would normally come from Keetac and Verso. If these facilities remain idled, Minnesota Power expects to lose estimated non-fuel revenue (excluding cost recovery riders) of $11.4 million in 2020 and $30 million in 2021, which includes partially offsetting sales transactions due to loss of load. The majority of 2020 lost revenue ($9 million) occurs from September to December, after nomination levels were reduced.

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[44] EOs 20-20, 20-33, and 20-48.
[45] Minn. Stat. 216B.04.

As an example of the magnitude of the loss of revenue from these facilities, the Keetac mine was reopened in the middle of Minnesota Power's 2016 Rate Case, ultimately resulting in interim rates being adjusted down by approximately 3 percent. All of these numbers reflect significant adverse impacts to Minnesota Power.

Minnesota Power is only seeking to track the significant revenue losses associated with the idling of Keetac and Verso. Although the Company has suffered losses due to other large industrial customers reducing production and their contractual nominations and commercial customers reducing load, those reductions are far less substantial and have been essentially offset by moderate increases in residential consumption and reduced expenses due to COVID-19 related restrictions.

(3) Unusual or extraordinary items

The COVID-19 pandemic is one of the most unusual and extraordinary events in the history of Minnesota Power. As the Commission found in the Joint Petition for deferred accounting: "The Commission recognizes that COVID-19-related expenditures and other financial impacts are unusual, extraordinary, and infrequent. The Commission also recognizes that without recovery of these costs, a utility could suffer financial harm."[46]

Many of Minnesota Power's large industrial customers reduced or entirely idled operations in the Spring of 2020 due to the COVID-19 pandemic. But because these customers had already submitted nominations indicating their energy demand levels through the end of August, Minnesota Power did not immediately see a steep decline in revenues and did not know about these customers' long term plans until they submitted their next nominations on August 1, 2020. At that time, the Company learned that, although many of its large industrial customers planned to restart or increase operations in the Fall of 2020, Keetac and Verso would remain idled indefinitely and would reduce their nominations accordingly. The indefinite and potentially permanent loss of these two large industrial customers at the same time is highly unusual and will cause a substantial financial hardship for Minnesota Power.

(4) Subject to review for reasonableness and prudence

Minnesota Power requests that the Commission determine that it is reasonable and prudent for the Company to create a regulatory asset and recover for the revenue deficiency created by the idling of Keetac and Verso in a future rate case, and reserving for that proceeding the decision regarding what amount of Net Lost Revenues is reasonable and prudent for Minnesota Power to recover. This would provide Minnesota Power with sufficient clarity to book the Net Lost Revenues as a regulatory asset for both accounting and regulatory purposes at the present time, while reserving for a future proceeding the discussion and determination regarding what amount is reasonable and appropriate for recovery.

[46] Joint Petition Order at p. 5.

The Commission similarly ordered the creation of a regulatory liability to track the proceeds of Minnesota Power's sales of facilities near the end of the 2017 test year for the Company's 2016 rate case.[47] The Commission decided that it would be most equitable and consistent with the public interest to create a regulatory liability for the sales proceeds that would offset revenue requirements in the next rate case rather than attempting to include the sales proceeds in the 2016 rate case, which was already in the late stages. Similarly, it would be most equitable and consistent with the public interest to create a regulatory asset to track Net Lost Revenues that became known and measurable only after the resolution of Minnesota Power's 2019 rate case.

The immediate loss of a significant portion of Minnesota Power's overall revenue as a result of a global pandemic was unforeseeable and has created an irrefutable revenue deficiency that will prevent Minnesota Power from earning a reasonable return on its investment in equipment necessary to provide the public with adequate, efficient, and reliable service. The Company could not have anticipated this sudden loss of load and revenue resulting from the indefinite idling of Keetac and Verso. Without the ability to track the associated Net Lost Revenues in a regulatory asset for recovery in the next rate case or applicable proceeding, Minnesota Power would not have an opportunity to recover its reasonable rate of return unless the Company files a rate case as early as practicable. Authorization of trackers and a regulatory asset would delay increased interim and final rates that would be implemented through a rate case during the immediate effects of the COVID-19 pandemic; preserve Company, Commission, Department, and other interested party resources that would be expended during a rate case; and not prejudice any party's opportunity to challenge the amount of Net Lost Revenues that are reasonable and appropriate for Minnesota Power to recover. Ultimately, Minnesota Power believes that its proposal is the most reasonable alternative for all affected and interested parties at this time.

Minnesota Power is open to tracking options that the Commission has used in the past and which may be acceptable to stakeholders. As discussed above, the Commission has utilized several different mechanisms to track a utility's revenue losses or gains associated with changes in sales and provide for recovery of those losses or gains, such as a sales true-up, revenue decoupling, other statutory trackers, or recovery through a general rate case. Minnesota Power seeks only the opportunity to track, defer, and record these costs as a regulatory asset for now, as circumstances unfold and while it explores the most effective manner in which to seek recovery (barring unexpected reversals of fortune). At the same time, Minnesota Power recognizes the need to establish finality with respect to this proposal. To that end, Minnesota Power commits that it will propose appropriate recovery mechanism alternatives for Commission consideration and approval in the Company's next general rate case or in a separate proceeding no later than February 1, 2022.

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[47] *In re Petition of Minnesota Power for Approval of a Purchase Agreement for the Sale of the Aurora Service Center to Lakehead Constructors, Inc.*, Docket No. E-015/PA-17-457 (Feb. 8, 2018).

Ultimately, the reasonableness and prudence of allowing Minnesota Power to recover for the COVID-19 related lost revenues from Keetac and Verso will be subject to a fulsome review.

VII. PROPOSED REGULATORY PROCESS

Minnesota Power respectfully requests that the Commission review and approve this Petition on an expedited timeframe, by June 1, 2021. Expediting review will provide certainty to the Company for both accounting and regulatory purposes. Minnesota Power will need to know whether it can book 2020 Net Lost Revenues as a regulatory asset for both accounting and regulatory purposes. Additionally, the outcome of this proceeding will influence when Minnesota Power will need to file its next rate case. If Minnesota Power is not permitted to track Net Lost Revenues using a regulatory asset, then the Company will likely need to file a rate case as soon as is practicable after March 1, 2021. As a result, Minnesota Power will need to know the outcome of this proceeding to determine whether to immediately invest the time and resources necessary to prepare and file a rate case.

VIII. CONCLUSION

Minnesota Power suffered significant and wholly unforeseen losses of revenue due to the idling of Keetac and Verso as a result of the COVID-19 pandemic and the public health emergency orders issued in response. In order to delay the need for a general rate case that would result in increased interim and final rates for ratepayers, Minnesota Power respectfully requests authority, effective September 1, 2020, to track and record lost large industrial sales caused by the COVID-19 pandemic. Minnesota Power will seek Commission review and approval for recovery purposes in the Company's next general rate case or other appropriate proceeding, and in no event later than February 1, 2022. Minnesota Power requests that the Commission review and approve this Petition by June 1, 2021, to provide the Company with certainty for purposes of accounting for the 2020 Net Lost Revenues as well as determining the need to file a rate case as soon as practicable after March 1, 2021, if the Petition is denied.

Dated: November 4, 2020

Respectfully Submitted,

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STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

AFFIDAVIT OF SERVICE VIA ELECTRONIC FILING

Roshelle Herstein of the City of Robbinsdale, County of Hennepin, State of Minnesota says that on the 4th day of November, 2020, she served Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting From the COVID-19 Pandemic Initial Filing in Docket No. E015/M-20-_____ on the Department of Commerce – Division of Energy Resources ("the Department") and Minnesota Office of the Attorney General – Antitrust and Utilities Division via electronic filing. The persons on Minnesota Power's General E-Docket's Service List were also served.

Roshelle Herstein

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Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	GEN_SL_Minnesota Power_MPs General Service List
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