

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
Joseph K. Sullivan	Commissioner
John A. Tuma	Commissioner

In the Matter of Minnesota Power’s Request
for Approval of its 2019 Transmission
Factors under its Transmission Cost Recovery
Rider

ISSUE DATE: December 3, 2020

DOCKET NO. E-015/M-19-440

ORDER APPROVING TRANSMISSION
COST RECOVERY, CLARIFYING
PRIOR ORDER, AND REQUIRING
FILINGS

PROCEDURAL HISTORY

On July 9, 2019, Minnesota Power (the Company) filed a Petition for Approval of a Transmission Cost Recovery (TCR) Rider under Minn. Stat. § 216B.16, subd. 7b (the Petition).¹

On October 9, 2019, the Department of Commerce–Division of Energy Resources (the Department) filed comments recommending that Minnesota Power file additional information in reply comments.

On October 17, 2019, the Large Power Intervenors² (LPI) filed a letter supporting the Department’s comments.

On November 25, 2019, Minnesota Power filed reply comments providing the information requested by the Department.

On January 23, 2020, the Department filed response comments recommending several actions, including denial of Minnesota Power’s request to recover past costs associated with the Great Northern Transmission Line and Dog Lake projects.

On February 25, 2020, Minnesota Power filed supplemental reply comments responding to the Department’s comments and reiterating its request for transmission cost recovery.

¹ On July 18, 2019, Minnesota Power filed a letter updating the references in the Petition.

² The companies comprising LPI are ArcelorMittal USA (Minorca Mine); Blandin Paper Company; Boise Paper, a Packaging Corporation of America company, formerly known as Boise, Inc.; Enbridge Energy; Hibbing Taconite Company; Sappi Cloquet, LLC; USG Interiors, LLC; United States Steel Corporation (Keetac and Minntac Mines); United Taconite, LLC; and Verso Corporation.

On May 14, 2020, the Commission met to consider the Petition.

FINDINGS AND CONCLUSIONS

I. Background

Generally, a public utility may not change its rates without a rate-case proceeding in which the Commission comprehensively reviews the utility's costs and revenues. However, the Legislature has created exceptions to this general policy, allowing a utility to implement a rider—also referred to as a cost adjustment mechanism—to expedite recovery of certain costs not reflected in the company's current base rates.

The transmission-cost-recovery statute, Minn. Stat. § 216B.16, subd. 7b, authorizes a utility to recover, through a rider, the Minnesota jurisdictional costs of the following:

- new transmission facilities that the Commission has approved through a certificate of need or that are exempt from the requirements of section 216B.243;
- new transmission or distribution facilities that are certified as a priority project or deemed to be a priority transmission project under the state transmission and distribution plan;
- new transmission facilities in another state that have been approved by that state and determined by the Midcontinent Independent System Operator (MISO) to benefit the utility or integrated transmission system; and
- charges incurred by a utility under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator (MISO) to benefit the utility or integrated transmission system.

In the Petition, Minnesota Power proposes two transmission projects for rider recovery: Great Northern Transmission Line (GNTL) and Dog Lake. Minnesota Power is also requesting cost recovery for the charges imposed by MISO for Regional Expansion and Cost Benefit (RECB) transmission projects across the region.

The Company is requesting recovery of \$31.4 million through the transmission cost rider, including a carry-over balance of approximately \$3 million from its 2018 transmission cost tracker, \$17.6 million of GNTL costs, \$356,000 of Dog Lake costs, and \$10.5 million in net RECB revenues and expenses.

II. Projects Proposed for Rider Recovery

A. Great Northern Transmission Line

The GNTL is an approximately 224-mile, 500 kilovolt (kV) transmission line extending from Manitoba, Canada to Grand Rapids. The GNTL project also includes the development of a new substation and other facilities, as well as underlying system improvements to existing Minnesota

Power facilities. The GNTL will enable 883 MW of incremental power transfer capability between Manitoba and the United States, including 250 MW of hydropower and 133 MW of wind-storage energy from Manitoba Hydro for Minnesota Power's customers. The GNTL is expected to cost approximately \$700 million in current dollars, and Minnesota Power projected a June 1, 2020 in-service date.

Minnesota Power has negotiated for Manitoba Ltd.,³ a subsidiary of Manitoba Hydro, to pay a monthly Must Take Fee associated with the delivery of wind-storage energy, and the Company has proposed to apply the revenues from this credit to the TCR rider.⁴ In the Commission's order approving the certificate of need for the GNTL (the June 2015 Order), the Commission placed the following condition on its grant of the certificate of need: "Limit Minnesota Power's recovery in riders to an amount equal to 28.3% of the total capital costs of the Project or \$201 million (in 2013 dollars), whichever is less."⁵ Minnesota Power states that the revenues from the Must Take Fee will ensure that Minnesota Power customers pay no more than 28.3% of the total capital costs through the rider.

B. Dog Lake

The Dog Lake project is a 115kV transmission line and associated facilities that is a joint project between Minnesota Power and Great River Energy.⁶ The Dog Lake project is intended to address local load-serving and power-system overload issues in the area and to establish service to a new oil pipeline pumping station. Dog Lake was placed in service in Fall 2017, and the total costs for the project are approximately \$4.176 million.

C. MISO Charges for RECB Projects

RECB projects are part of MISO's Midwest Transmission Expansion Plan (MTEP), whereby members propose projects to improve the regional transmission infrastructure. MISO studies the projects and adds to the annual MTEP those projects that will enhance reliability or relieve transmission congestion. The cost of RECB projects is allocated to all load-serving entities within the MISO footprint, including Minnesota Power. The Company has also received revenues for its RECB projects included in the MTEP, and these net revenues are credited to the transmission-cost-recovery rider.

³ The full name of the subsidiary is 6690271 Manitoba Ltd.

⁴ The Must Take Fee "is based on conservative estimates of capital costs, administrative and general, O&M, and property taxes, augmented with a specified annual contingency amount built in to better protect Minnesota Power customers." Petition, at 22.

⁵ *In the Matter of the Request of Minnesota Power for a Certificate of Need for the Great Northern Transmission Line*, Docket No. E-015/CN-12-1163, Order Granting Certificate of Need with Conditions, at 25 (June 30, 2015).

⁶ The Dog Lake project is also referred to as the Motley-Area Transmission Line project.

III. Disputed Issues

The Department and LPI raised two main concerns with the Petition: (1) recovery of costs incurred in 2015–2018 for GNTL and 2016–2018 for Dog Lake; and (2) a rate of return on 46% of GNTL’s total capital costs.⁷

A. Recovery of 2015–2018 Costs

1. Parties’ Positions

The Department argued that Minnesota Power should not be allowed to recover GNTL and Dog Lake costs incurred in 2015–2018 through the 2019 TCR rider. The Department concluded that Minnesota Power’s arguments concerning the timing and complexity of its past rate case and rider filings did not justify recovering past costs in the current proceeding and argued that doing so would amount to retroactive ratemaking. The Department argued that previous examples of TCR rider filings were not comparable to this proceeding.

LPI noted that the amount Minnesota Power seeks to recover through the TCR rider this year is approximately 2.6 times larger than the revenue requirement approved in the Company’s last rate case. LPI also pointed out that over half of the requested amount is for costs associated with the GNTL, which is not yet used and useful in providing service to Minnesota Power’s customers. LPI opposed Minnesota Power’s cost-allocation methodology and agreed with the Department’s recommendation to deny recovery of 2015–2018 GNTL costs.

Minnesota Power responded that the GNTL costs were prudently incurred and it had not expected a problem with submitting a request for recovery of prior years’ eligible transmission costs. The Company cited examples of the Commission-approved TCR rider filings that have included eligible transmission costs from prior years, and the Company argued that Minn. Stat. §216B.16, subd. 7b, does not specify a time limit for seeking approval of eligible transmission costs through the rider. Minnesota Power noted that it is requesting the same amount as it would have if it had sought recovery the year costs were incurred; there was thus no harm to customers from the Company’s delayed request. But Minnesota Power argued that the Department’s recommendation would cause significant financial harm to the Company.

2. Commission Action

There is no dispute between the parties that the costs Minnesota Power seeks to recover through the TCR rider are eligible for recovery under the statute and were prudently incurred. The Department’s only objection is that Minnesota Power requests to recover costs from 2015–2018 in the 2019 rider.

The Commission finds that in this case it is in the public interest to approve Minnesota Power’s recovery of the requested costs through the TCR rider. The Company is not seeking any additional dollars than it would have recovered if it had submitted these costs in the years they were incurred. In fact, the Company’s accounting treatment of earning a return on construction-work-in-progress (CWIP) for GNTL, as explained further below, will save ratepayers money.

⁷ The Commission also received one public comment objecting to an increase in Minnesota Power’s rates.

The Commission will therefore approve the Petition as updated in Minnesota Power’s supplemental reply comments dated February 24, 2020. In order to avoid confusion in future rider filings, the Commission will require Minnesota Power to annually submit a TCR Factor filing, which must include descriptions of all potentially eligible projects that they will seek recovery for in the future and the impacts those projects will have on the TCR factor.

B. GNTL Rate of Return

1. Parties’ Positions

The Department questioned Minnesota Power’s proposal to charge ratepayers a return on 46% of GNTL’s capital costs when the June 2015 Order limits the Company’s rider recovery of GNTL capital costs to 28.3% or \$201 million (in 2013 dollars), whichever is less. In initial comments, the Department disagreed with Minnesota Power’s approach and recommended that the Company respond to its concerns in reply comments.

Minnesota Power explained in reply comments that by earning a current return on 46% of its CWIP for the GNTL, ratepayers would ultimately pay less for the project. Minnesota Power recognized that its approach appeared to be inconsistent with the June 2015 Order, but the Company explained that the revenues it will receive from the Must Take Fee will be credited to the TCR rider and offset 17.7% of the GNTL capital costs, leaving ratepayers responsible for 28.3% of capital costs through the rider. Minnesota Power explained that earning a return on CWIP results in lower capital investment and property taxes, and that “it would allow [the Company] to ease the costs of the GNTL in to rates, thereby avoiding a sudden rate shock when those projects go into service.”⁸

In response comments, the Department acknowledged that Minnesota Power’s approach to the GNTL rate of return would result in a small net savings for ratepayers over the life of the project. The Department recommended that if the Commission approves Minnesota Power’s request to charge ratepayers for a return on 46% of GNTL’s capital costs, the Commission should consider revising the June 2015 Order “to clarify that the 28.3 percent was intended to apply to the capital costs over the entire life of the GNTL project and not the CWIP balance prior to the in-service date.”⁹

2. Commission Action

The Commission agrees with Minnesota Power’s approach to charge ratepayers a return on 46% of GNTL’s capital costs and then credit the revenues from the Must Take Fee back to ratepayers through the TCR rider, which will ultimately result in ratepayers being charged 28.3% of GNTL’s capital costs through the TCR rider. The Commission considers this approach to be consistent with the intent of the June 2015 Order and will therefore clarify that the 28.3% limit in rider recovery in the June 2015 Order was intended to apply to the capital costs over the entire life of the GNTL project and not the CWIP balance prior to the project’s in-service date.

⁸ Minnesota Power reply comments, at 13.

⁹ Department response comments, at 15.

IV. Additional Actions

GNTL and Dog Lake are not RECB projects, but Minnesota Power does receive revenues from MISO when other utilities use these facilities, reflected in MISO Schedule 9. The Commission will require Minnesota Power to include in this proceeding the net credits it receives from MISO under Schedule 9 for Dog Lake and Great Northern Transmission Line.

The Commission will also require Minnesota Power to do the following:

- file a copy of FERC's audit report regarding Minnesota Power's transmission formula rates in this proceeding when they become available;
- include any refunds that it receives for 2016–2019 return on equity reductions in future Transmission Cost Recovery Rider filings; and
- file compliance tariffs reflecting the modifications adopted in this order.

ORDER

1. The Commission approves Minnesota Power's petition as updated in Minnesota Power's supplemental reply comments dated February 24, 2020.
2. The Commission clarifies that the 28.3% limit in rider recovery in its June 30, 2015 order was intended to apply to the capital costs over the entire life of the Great Northern Transmission Line project and not the Construction-Work-In-Progress balance prior to the Great Northern Transmission Line project's in-service date.
3. Minnesota Power shall include in this proceeding the net credits it receives from MISO under Schedule 9 for Dog Lake and Great Northern Transmission Line.
4. Minnesota Power shall file a copy of FERC's audit report regarding Minnesota Power's transmission formula rates in this proceeding when it becomes available.
5. Minnesota Power shall include any refunds that it receives for 2016–2019 return on equity reductions in future Transmission Cost Recovery Rider filings.
6. Minnesota Power shall file compliance tariffs reflecting the modifications adopted in this order.
7. Minnesota Power shall file in their Transmission Cost Recovery Factor filing, annually, descriptions of all potentially eligible projects that they will seek recovery for in the future, and the impacts those projects will have on the Transmission Cost Recovery factor.

8. This order shall become effective immediately.

BY ORDER OF THE COMMISSION



Will Seuffert
Executive Secretary



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CERTIFICATE OF SERVICE

I, Leesa Norton, hereby certify that I have this day, served a true and correct copy of the following document to all persons at the addresses indicated below or on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States mail at St. Paul, Minnesota.

**Minnesota Public Utilities Commission
ORDER APPROVING TRANSMISSION COST RECOVERY, CLARIFYING
PRIOR ORDER, AND REQUIRING FILINGS**

Docket Number: E-015/M-19-440

Dated this 3rd day of December, 2020

/s/ Leesa Norton

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