

## Staff Briefing Papers

Meeting Date    November 23, 2021    Agenda Item 5\*\*

Company    Minnesota Power (Company)

Docket No.    **E-015/M-21-349**

**In the Matter of Minnesota Powers' Petition for Approval of Deferred Accounting Treatment for Approved EV Program Costs**

Issues    Should the Commission approve Minnesota Power's request for deferred accounting for its Electric Vehicle (EV) Portfolio?

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### Relevant Documents

### Date

Minnesota Power	May 21, 2021
Minnesota Public Utilities Commission – Notice of Comment Period	June 7, 2021
Office of the Attorney General – Comments	July 23, 2021
Minnesota Department of Commerce – Comments	July 26, 2021
Minnesota Power – Reply Comments	August 2, 2021
Minnesota Department of Commerce – Letter	September 20, 2021

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

## **I. Statement of the Issues**

Should the Commission approve Minnesota Power's request for deferred accounting for its Electric Vehicle (EV) Portfolio?

## **II. Introduction**

Minnesota Power, on July 31, 2020, filed a petition in Docket E-015/M-20-638 requesting approval of a portfolio of electric vehicle (EV) programs, which included a residential EV Charging Rewards Pilot Program, a residential EV Charging Rebate Program, and a dedicated education, outreach, and development budget. The Company's original petition also included a request to establish a new EV rider to pay for program costs.

The Commission in its April 21, 2021 Order, approved MP's EV programs but denied the request to establish a new rider and stated, "the Commission will treat Minnesota Power's EV program cost recovery in a way that is consistent with other utilities' EV-related programs, which do not have dedicated rider funding. Minnesota Power is welcome to request deferred accounting for its EV program costs; if the Company does so, the Commission will consider the request on its merits at the appropriate time."<sup>1</sup>

Thus, Minnesota Power in the instant docket filed for Commission approval to use deferred accounting for its EV program costs. Minnesota Power stated that the Company will not request to recover costs associated with this docket in its upcoming rate case,<sup>2</sup> if the Commission grants the application for deferred accounting for its EV program costs.

## **III. Background**

On May 21, 2021, Minnesota Power filed the present petition requesting the use of deferred accounting treatment for the EV programs approved in Docket No. 20-638.

On June 7, 2021, the Commission issued a Notice of Comment Period (Notice), which included the following topics open for comment:

1. Should the Commission grant deferred accounting for the costs of Minnesota Power's EV Charging Rewards and EV Charging Rebate Program?
2. Should the Commission grant deferred accounting for Minnesota Power's annual dedicated education, outreach, and development budget?
3. Are there other issues or concerns related to this matter?

The Office of the Attorney General filed Comments on July 23, 2021 recommending that, if the Commission grants MP's request, it should apply the same conditions it imposed on other utilities requests for deferred accounting of EV program costs.

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<sup>1</sup> Minnesota Power' Petition, p. 2.

<sup>2</sup> Docket E-015/GR-21-335.

On July 26, 2021, the Department filed Comments and recommended the Commission grant partial approval of deferred accounting for the EV Charging Rewards Program for \$289,700 and not recovery of costs associated with the proposed education, Outreach, and budget for program development (\$961,000).

Minnesota Power filed Reply Comments on August 2, 2021 with explanations to questions raised by Department and disagreed with the Department's recommendations.

On September 20, 2021, the Department filed a Letter accepting the Company's explanations and made no changes to its initial recommendations.

#### IV. Parties' Comments

##### A. Minnesota Power – Initial Filing

Minnesota Power requested Commission approval to use deferred accounting to track costs and expenses related to the two EV pilot projects, along with ongoing dedicated education, outreach, and program development budgets approved by the Commission in its April 21, 2021 Order in Docket No. E015/M-20-638.

- EV Charging Rewards Pilot Program: Includes costs associated with program implementation and customer rewards.
- 2nd Service and Residential EV Charger Rebate Programs: Includes costs associated with incentives for level 2 smart charge and 2nd service installation.
- Education and Outreach: Costs associated with the promotion of EV programs and general EV awareness, trade ally, engagement, and online tolls.
- Program Development and Delivery: Includes internal labor to deliver EV programs, consulting to continue EV program development and training costs

The Company requested deferred accounting treatment for program costs related to its approved Portfolio for probable consideration and recovery in a future rate case or rider mechanism. The Company, in Table 1, depicted the \$1,250,000 budget for the four projects that make up the EV Portfolio.

**Table 1: Minnesota Power' Budget for EV Portfolio Program Costs<sup>3</sup>**

Projects	2021	2022	2023	Total
EV Charging Rewards Pilot Program	\$82,300	\$54,200	\$54,200	\$190,700
2 <sup>nd</sup> Service and Residential EV Charger Rebate Programs	\$33,000	\$33,000	\$33,000	\$99,000
Education and Outreach	\$60,000	\$125,000	\$125,000	\$310,000
Program Development and Delivery	\$237,000	\$207,000	\$207,000	\$651,000
<b>Total</b>	<b>\$412,300</b>	<b>\$419,200</b>	<b>\$419,200</b>	<b>\$1,250,700</b>

<sup>3</sup> Minnesota Power' Petition, p. 5.

Further, the Company noted that its request for deferred accounting is consistent with the Commission's Orders rendered in Xcel Energy's<sup>4</sup> and Otter Tail's<sup>5</sup> EV pilot programs and expects to be granted similar treatment for its investments that equally advance transportation electrification. Minnesota Power cited the Minnesota Court of Appeal's unpublished decision upholding the Commission's approval of deferred accounting for Xcel as justification for its own deferred accounting request. In fact, Minnesota Power opined that deferred accounting is consistent with the Commission's overall public policy directives and actions meant to facilitate EV implementation requirements.<sup>6</sup>

### **B. Office of the Attorney General (OAG) – Comments**

The OAG requested the Commission should apply the same standards in approving Minnesota Power's petition that it used on prior utilities' requests for deferred accounting of EV program costs. Specifically, the OAG stated that, in case the Commission decides to approve the Minnesota Power's petition, "it should limit the deferral period so that the Company is allowed to track costs incurred between the date of the Commission's order and the test year of the Company's next rate case."<sup>7</sup>

Minnesota Power objected to the OAG's recommendation, explaining it preferred to be allowed to recover costs starting from the Commission's April 21, 2021 Order approving the EV pilot programs. Otherwise, the Company would be denied recovery for costs incurred from the effective start date of its programs.<sup>8</sup>

### **C. Department of Commerce – Comments**

The Department of Commerce acknowledged that the Commission has the legal authority to grant deferred accounting which is an extraordinary ratemaking remedy that is "an exception to balanced and fair ratemaking...utilities are not entitled to dollar-for-dollar recovery of all actual costs between rate cases."<sup>9</sup> The Department summarized past Commission evaluation criteria, stating it agrees deferred accounting is appropriate when it meets the following criteria when the costs are: "(1) unusual, unforeseeable, and/or extraordinary, (2) financially significant in amount, (3) related to utility operations, and (4) likely to provide or did provide ratepayer benefit."<sup>10</sup> The Department noted that, in some cases, the Commission has approved deferred accounting when a utility incurred costs "pursuant to public policy mandates." Additionally, the Department explained that any "request to defer costs should be offset by any and all sources of higher revenue, tax rebates, credits or other relevant sources of funds."<sup>11</sup>

The Department provided rationale from previous Commission orders approving deferred accounting for EV pilots, including:

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<sup>4</sup> Minnesota Power's Petition, p. 6; also see Docket No. E002/MM-18-643.

<sup>5</sup> Id., at p. 9; also see Docket No. E017/M-20-181.

<sup>6</sup> Minnesota Power's Petition, pp. 5-9.

<sup>7</sup> OAG, Initial, p. 1.

<sup>8</sup> Minnesota Power's Reply Comments, p. 2.

<sup>9</sup> Department's Initial Comments, p. 3.

<sup>10</sup> Id., at p. 5.

<sup>11</sup> Id.

- The proposed EV pilot investments were intended to serve important public policy objectives.
- The deferred accounting proposals were limited in scope and duration.
- The deferred accounting request applied only to costs incurred between the Order date and the beginning of the test year in the utility's next general rate case.<sup>12</sup>

Consistent with its analysis in prior EV deferred accounting requests, the Department based its analysis on prior criteria in other deferred accounting dockets:

1. **Unusual/Unforeseeable/Extraordinary.** Proposal does not meet the criteria, as transportation electrification has been contemplated for multiple years by both the PUC and legislature.
2. **Financially Significant in Amount.** Determined to not be financially significant in amount as the total program costs over three years are less than 0.15% of the total revenue requirements in the Company's last rate case.
3. **Related to Utility Operations.** Determined the activities of providing incentives and rebates to customers would relate to utility operations.
4. **Likely to Provide Ratepayer Benefits.** Could result in ratepayer benefits depending on resulting EV adoption, but it is unclear to what extent at this point in the program.
5. **Pursuant to public policy mandates.** While not the result of a specific public policy mandate, it does align with public policy interests relating to transportation electrification.<sup>13</sup>

Therefore, the Department concluded Minnesota Power's request meets some of the above criteria for deferred accounting.

The Department recommended that, if the Commission grants deferred accounting, it should allow deferred accounting for only the EV Charging Rewards Program and Second Service and Residential EV Charger Rebate Programs for a total of \$289,700 out of the of the \$1,250,700 total budget requested amount. It explained the costs of these programs are fixed, incremental costs outside the Company's prior rate case.<sup>14</sup>

Thus, the Department recommended denying the \$961,00 which represents the Company's proposed Education and Outreach and Program Development and Delivery budgets. The Department noted these expenditures primarily comprised of labor costs, which are already represented in the Company's base rates, and therefore should not be eligible for deferral. However, the Department said that, if Minnesota Power can show that only incremental costs directly related to the EV Program are included in the petition, and that these are not already included in base rates, it may be reasonable to have a limited amount allowed in the deferred account.<sup>15</sup>

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<sup>12</sup> Department's Initial Comments, p. 6.

<sup>13</sup> Department's Initial Comments, p. 9.

<sup>14</sup> Id.

<sup>15</sup> Id.

The Department equally noted that Minnesota Power’s petition indicated that it will not request cost recovery in the upcoming rate case and requested Minnesota Power to clarify the reasoning for this statement, and also where it plans to recover the deferred costs.<sup>16</sup>

#### **D. Minnesota Power – Reply Comments**

Minnesota Power disagreed with the Department’s recommendation to exclude non-incremental education, outreach, and program development costs. It stated that, in its April 21, 2021 Order, the Commission approved the program budgets outlined in Table 1 above. Further, the costs outlined are all incremental to the Company’s 2017 test year base rates, and in its upcoming rate case filing the Company will exclude all related deferred costs from the 2022 test year.<sup>17</sup>

Minnesota Power indicated that it did not include the pilot costs in the rate case because it would split the cost recovery between multiple rate cases. Instead, once the pilots have concluded, the Company will request recovery in a future rate case.<sup>18</sup>

#### **E. Department of Commerce – Letter (Response to Reply Comments)**

In response to the Department’s request for clarification on the timing and location of the deferred tracker cost recovery, the Department accepted Minnesota Power’s explanation and indicated it had no further question regarding this issue.<sup>19</sup>

### **V. Staff Analysis**

To date, Minnesota’s investor-owned utilities have requested and received approval for deferred accounting for electric vehicle infrastructure programs in several instances, a selection of which are summarized by Staff below with details about what costs the utilities specifically requested and the Commission explicitly granted the ability to track.

1. Docket 18-643, Xcel Energy’s Fleet and Public Charging Pilots for make-ready EV infrastructure.
  - a. O&M expenses associated with the proposed pilots, with an amortization period to be determined in a future rate case where recovery is requested. These O&M costs include program management.
  - b. depreciation expense related to the capital investments in the make-ready infrastructure for both pilots.

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<sup>16</sup> Department’s Initial Comments, p. 9.

<sup>17</sup> Minnesota Power’s Reply Comments, pp. 3-4.

<sup>18</sup> Minnesota Power’s Reply Comments, pp. 4-5.

<sup>19</sup> Department’s Response Letter, p.1.

2. Docket 20-181, Otter Tail Power's EV Portfolio for
  - a. Capital investment costs from the Otter Tail-owned DCFC Network Pilot.
  - b. O&M costs from operating the Otter Tail-owned DCFC Network including future O&M costs from the existing 50 kW DCFC station Otter Tail already placed in Fergus Falls.
  - c. Depreciation expense from capital investment.
  - d. Equipment expenses from ten L2 charges installed with community partners.
  - e. Program management and Advertising and Education costs from Minnesota EV promotional activities.
3. Docket 21-257, Minnesota Power's EV Infrastructure Investment
  - a. Capital investment costs of the proposed charging station infrastructure.
  - b. Operation and Maintenance expenses of the charging station infrastructure.
  - c. Depreciation expenses from the capital projects.
  - d. Property taxes associated with the capital projects.
  - e. Annual return on rate base of the capital project (denied by the Commission).

Minnesota Power indicated that its request is "fully consistent" with prior deferred accounting requests. While portions of Minnesota Power's deferred accounting request are "limited in scope and duration," its ongoing program development budget is not – this is permanent funding not specific to the pilots approved in Docket 20-638. If the Commission approves Minnesota Power's request it will be expanding the use of deferred accounting beyond what has been approved in other utility cases.

Therefore, to remain consistent with existing practice for EV deferred accounting request, Staff recommends the following:

1. Allow Minnesota Power to track the costs of program management associated with pilots approved by the Commission
2. Minnesota Power should request to recover non-approved EV program development costs as a portion of the relevant program or pilot filing.
3. Minnesota Power should create individual tracker accounts for its communications costs and its pilot programs
4. Allow Minnesota Power to add program development and delivery costs associated with the recently approved EV infrastructure program in Docket 21-257 to the deferred tracker account approved in that docket

In fact, including program development and delivery costs in specific pilot deferred accounting trackers is consistent with how the Commission required Xcel and Otter Tail to track expenses in their EV pilot deferred accounting requests. Importantly, this should not preclude Minnesota Power from recovering costs associated with its EV programs, either through program specific cost recovery, or through its communications cost tracker for outreach and education. However, if the Commission determined it is appropriate to allow Minnesota Power to track program development and delivery costs, Staff recommends that category of costs have its own account.

Finally, Staff notes that the costs Minnesota Power is seeking to defer appear to be classified as operations and maintenance costs, and not capital expenditures. Therefore, it does not appear as though Minnesota Power is requesting to track a rate of return on the deferred account, as it did in Docket 21-257. The Commission may wish to confirm this with Minnesota Power and the Department at the Commission hearing.

## VI. Decision Alternatives

1. Approve Minnesota Power's request for deferred accounting (*Minnesota Power*)

**OR**

2. Approve deferred accounting for the EV Charging Rewards Pilot Program and EV Charger Rebate Program totaling \$289,700. For the Company's education, outreach, and development budget, only costs that are clearly incremental (and not labor expenses already built into base rates) to those approved in the Company's rate case proceeding in Docket Nos. E015/GR-19-442 and E015/M-20-492 will be considered eligible to be reviewed for eventual recovery. (*Department*)

**OR**

3. Approve deferred accounting and establish separate tracker accounts as outlined below. For the Company's education and outreach budgets, only costs that are clearly incremental (and not labor expenses already built into base rates) to those approved in the Company's rate case proceeding in Docket Nos. E015/GR-19-442 and E015/M-20-492, will be considered eligible to be reviewed for eventual recovery. (*Staff*)
  - a. The EV Charging Rewards Pilot Program and EV Charger Rebate program, including program development and delivery costs.
  - b. Education and outreach budget.
  - c. Allow Minnesota Power to track program development and delivery costs associated with its EV Charging Investment Proposal in the deferred accounting tracker approved in Docket E015/M-21-257.

### **4 or 5 can be adopted with any of the options approving deferred accounting**

4. Approve deferred accounting only for costs incurred between the issuance of the Commission's order approving deferred accounting and the onset of the test year in Minnesota Power's next rate case. (*OAG, modified by Staff to be consistent with prior Commission decision language*)

**OR**

5. Approve deferred accounting only for costs incurred between the issuance of the Commission's April 21, 2021 Order approving the pilots and the onset of the test year in Minnesota Power's next rate case. (*Modification of decision option 5 to allow recovery starting from the date of the Commission's approval of the pilot programs*)

6. Deny Minnesota Power's request for deferred accounting.