

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

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

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

Docket No. E015/GR-23-155

**NOTICE AND PETITION
FOR INTERIM RATES**

A. Introduction

Minnesota Power hereby respectfully submits to the Minnesota Public Utilities Commission (“Commission”) this Petition for Interim Rates (“Petition”) pursuant to Minn. Stat. § 216B.16, subd. 3, the Commission’s Statement of Policy on Interim Rates dated April 14, 1982, and relevant Commission rules. Based on calculation of the Company’s gross present revenues and the interim revenue deficiency set forth in the Schedules supporting this Petition, the Company is experiencing a \$63.6 million, or 8.6 percent, interim revenue deficiency exclusive of transferring costs of the Great Northern Transmission Line (“GNTL”) from the Transmission Cost Recovery Rider to base rates and resetting the Production Tax Credit (“PTC”) baseline with an accompanying change in the Renewable Resources Rider. This equates to a gross interim rate change of 13.8 percent or approximately \$102.6 million. Minnesota Power requests that the Commission authorize an interim rate increase reflecting its gross interim revenue deficiency effective January 1, 2024, and remaining in effect until the Company implements final rates in this proceeding.

B. Information Provided Pursuant to the Commission Statement of Policy on Interim Rates and Relevant Commission Rules

**1. Name, address, and telephone number of utility and attorneys
(Policy Statement, Item 1, page 2)**

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**2. Date of filing and date proposed interim rates are requested to
become effective
(Policy Statement, Item 2, page 2)**

The date of the submission of this Petition is November 1, 2023. This Petition is submitted as part of Minnesota Power’s Application for a general electric rate increase (“Application”) pursuant to Minn. Stat. § 216B.16, subd. 3. Minnesota Power requests that, if the Commission suspends the operation of the general rate schedules that accompany the Application pursuant to Minn. Stat. § 216B.16, subd. 2, that the proposed interim rates be made effective on January 1, 2024. The interim rates will be subject to refund, with interest, pending final Commission determination on the Application.

**3. Description and need for interim rates
(Policy Statement, Item 3, page 2)**

Minnesota Power has filed only four completed rate cases in the last 29 years, the last being the 2021 Rate Case (Docket No. E015/GR-21-335).¹ Over this time, Minnesota Power has transformed its generation fleet and added other internal resources that will assist Minnesota Power in achieving the state of Minnesota’s new goal of providing 100 percent carbon-free electricity by 2040; modernizing its transmission grid to facilitate the delivery of renewable energy; and supporting enhanced customer offerings and conservation opportunities.

With these new additions, Minnesota Power has been proactive and creative in maximizing opportunities to moderate rates for its customers. The Company has met and exceeded conservation goals for a number of years, and has developed new rates and services that enable residential and commercial customers to reduce their consumption and overall energy bills. The Company has developed new products and offerings to support its customers, including advanced meter infrastructure and expanded customer affordability programs, and implemented time-of-use/time-of-day rates that allow customers to have more control over the bills they pay. The Company has also brought online major capital projects, like the GNTL, on time and under budget. These projects and offerings support our customers in numerous ways, but also make it vital for the Company to obtain interim and final rate relief in this proceeding.

Overall, Minnesota Power requires interim rates due to changes in revenue and in its overall cost of providing reliable customer service while leading efforts toward decarbonization, as set forth in the testimony of Company witness Ms. Jennifer J. Cady and the other Company witnesses in this proceeding. These costs and changes in revenue are currently being incurred and will continue to be incurred throughout the test year and during the ten-month suspension period and beyond. Without interim rate relief, Minnesota Power would be unable to recover its reasonable costs of providing electric service to its customers, and would not have a reasonable opportunity to earn its authorized rate of return. As a result, the Company must re-establish rates that reflect current revenue and cost structures and support a financially healthy utility.

¹ Minnesota Power also submitted a general rate case in 2019, in Docket No. E015/GR-19-442 (“2019 Rate Case”); however, due to the advent of the COVID-19 pandemic, the Company developed an alternate resolution with intervening parties and withdrew its 2019 rate request prior to completion of the case.

Volume 1, Direct Schedules A (IR) through F (IR) and Volume 4, Workpapers accompanying this Petition set forth the calculation of the gross Minnesota jurisdictional interim revenue deficiency of approximately \$102.6 million, which represents a 13.8 percent gross interim rate change. Volume 1, Direct Schedule B-11 (IR) sets forth the calculation of the net Minnesota jurisdictional interim revenue deficiency of approximately \$63.8 million, which represents an 8.6 percent net interim rate change. Minnesota Power's interim revenue deficiency is determined using the 2024 test year revenue requirements, with the proposed adjustments set forth below consistent with Minnesota Statutes and Rules. Minnesota Power calculated its proposed interim rates consistent with Commission requirements and precedent.

Minnesota Power requests that the proposed interim rate increase be applied to all classes of Minnesota Power's retail electric customers, but not to the following services, consistent with Commission application of interim rates in the Company's prior rate cases: Large Power Incremental Production Services ("IPS"), Economy/Non-firm Service, Replacement Firm Power Service ("RFPS"), and Pool-within-Pool Service. Generally, the price for these services fluctuates with Minnesota Power's hourly incremental energy costs or is otherwise specified in individual customer agreements, and so these revenues are not included in the Large Power class revenue in the cost-of-service studies.

Riders to Base Rates

For purposes of both interim rates and final base rates, the Company proposes to incorporate approximately \$16.4 million (MN jurisdictional) that is currently being recovered under the Transmission Cost Recovery ("TCR") Rider for the GNTL. As detailed in the testimony of Company witnesses Mr. Stewart J. Shimmin and Ms. Amanda L. Turner, this amount presently included in the TCR Rider will simply be moved from the rider into base rates effective January 1, 2024, offsetting the gross interim base rate increase.

For purposes of both interim rates and final rates, the Company also proposes to reset approximately \$22.4 million (MN jurisdictional) of federal PTCs in base rates, which is offset in the Renewable Resources Rider ("RRR"). This reset is detailed in the testimony of Company witnesses Mr. Shimmin and Ms. Rena Verdoljak.

Collectively, these transfers of rider costs into base rates account for more than one-third of the Company's interim rate request.

Interim Rate Adjustments from General Rate Request

The costs included in interim rates are appropriate for recovery in interim rates because they are “the same in nature and kind as those allowed” by the Commission Order in Minnesota Power’s last electric rate proceeding. Minn. Stat. § 216B.16, subd. 3. To further comply with this statute, the Company proposes the following adjustments to the 2024 final revenue requirement that reflect a difference between its final rate request and interim rate request in this proceeding:

- ***Pro Rata ADIT.*** Under Internal Revenue Service (“IRS”) normalization requirements, utilities who use forecast test years for determination of rates must calculate average ADIT using a pro rata method for interim rates, but not final rates. Thus the Interim Rate calculation, but not the General Rate calculation, reflects the pro rata ADIT methodology.
- ***Prepaid Pension Asset.*** As Minnesota Power has not previously received approval to recover the costs of its accumulated contributions in excess of net periodic benefit cost (or prepaid pension asset), this asset is not of the same nature and kind as those allowed by the currently-effective Commission Order and are not included in rate base in our Interim Rate calculation. Consistent with Order Point 7 of the Commission’s March 12, 2018 Order in the Company’s 2016 Rate Case, as well as the Commission’s February 28, 2023 Order in the Company’s 2021 Rate Case, Minnesota Power has also removed the ADIT associated with this asset from the Interim Rate calculation.
- ***Taconite Harbor Energy Center (“THEC”).*** In the Company’s 2021 Rate Case, the Commission determined that THEC should be removed from the test year rate base. This asset is therefore not of the same nature and kind as those allowed by the Commission Order in the 2021 Rate Case and is not included in rate base in our Interim Rate calculation.
- ***Years of Service Awards.*** In the Company’s 2021 Rate Case, the Commission disallowed certain employee award expenses, including Service Awards and Retirement Awards; therefore, these expenses are not included in the Interim Rate calculation.
- ***Boswell Energy Center (“BEC”) Units 1 & 2 Regulated Asset.*** When Minnesota Power retired BEC 1&2 in 2018, the Commission authorized creation of a regulatory asset through 2022 to complete cost recovery associated with the early retirement of these assets. In the Company’s 2021 Rate Case, the Commission authorized amortization of the 2022 expense over three years, with the last year being 2024. The Interim Rate calculation reflects this

last year of amortization in 2024, which is not included in the final rate request due to the anticipated completion of the amortization before final rates are placed in effect.

- ***Service Center Sales Regulatory Liability.*** In Minnesota Power’s 2021 Rate Case, the Commission directed the Company to amortize the regulated liability balances associated with service center sales over three years, effective 2022 through 2024. The Interim Rate calculation reflects this last year of amortization in 2024, which is not included in the final rate request due to the anticipated completion of the amortization before final rates are placed in effect.
- ***Nitrogen Oxide (NOx) Allowances.*** In this proceeding, Minnesota Power included approximately \$10.8 million in its final rate request to account for increases in NOx allowance requirements anticipated as a result of the Environmental Protection Agency Good Neighbor rule, with a request to ultimately include actual cost/allowance amounts in the Fuel Adjustment Clause. For purposes of calculating interim rates and in light of the July 2023 stay on implementation of the rule in Minnesota, the Company has voluntarily adjusted these NOx expenses out of the Interim Rate calculation.
- ***LP (Large Power) Demand Response.*** In this proceeding, Minnesota Power is proposing to increase the credit for Product A to account for evolving requirements under the Midcontinent Independent System Operator (“MISO”), which allow for an increased number of interruptions during the MISO Planning Year. Since this rate design of Other Revenue from Sales is not of the same nature and kind allowed in the 2021 Rate Case, the amount related to the new proposal for LP Demand Response is not included in the Interim Rate calculation.
- ***Capacity Revenue and Expense.*** In Minnesota Power’s 2019 Rate Case resolution, the Commission approved recovery of energy and capacity sales credits through the FAC, whereas capacity expense remained in base rates. In this case, Minnesota Power is requesting to move short-term capacity revenue and expense to a new Rider for Capacity Revenue and Expense Adjustment. The Company proposes an adjustment to final rates to implement the new rider; however, the Interim Rate calculation reflects sales and cost recovery as previously approved by the Commission.
- ***Rate of Return on Equity.*** Consistent with the requirements of Minn. Stat. § 216B.16, subd. 3(b), the return on equity included in interim rates is 9.65 percent, which is the return

on equity (“ROE”) approved by the Commission in Minnesota Power’s 2021 Rate Case. This amount is reduced from the Company’s requested final rate ROE of 10.30 percent.

- **Secondary Calculations.** Cash working capital and interest synchronization are secondary calculations that need to be recalculated during the course of the proceeding to reflect changes to operations and maintenance (“O&M”) expenses, rate base, and capital structure. The Company’s Interim Rate schedules reflect the appropriate calculations for determination of the interim revenue requirement.

These adjustments are described by Company witness Ms. Turner in her Direct Testimony. Further, each of the Company’s adjustments for purposes of interim rates for the Minnesota Jurisdiction are set forth in Volume 1, Direct Schedules B-3 (IR) (Rate Base Adjustments – Minnesota Jurisdiction), B-7 (IR) (Operating Income Adjustments – Minnesota Jurisdiction), B-9 (IR) (Interest Synchronization Adjustment), B-10 (IR) (Summary of Revenue Requirements), and C-6 (IR) (Capital Structure and Rate of Return Calculations).

Consistent with Minn. Stat. § 216B.16, subd. 3, the Company is proposing the same allocation methodology for its Adjusted Test Year Class Cost of Service Study (“CCOSS”), as well as its Interim Test Year CCOSS, as was approved by the Commission in the 2021 Rate Case.

4. Description and corresponding dollar amount of changes included in interim rates as compared with most current approved general rate case and with the most recent year for which audited data is available (Policy Statement, Item 4, page 2)

A comparison of the changes included in interim rates as compared with Minnesota Power’s 2021 Rate Case (Docket No. E015/GR-21-335) is contained along with this Petition in Volume 1, Direct Schedules C (IR) (Comparison of Proposed Interim Rates to Most Recent General Rate Case) and Schedules D (IR) (Comparison of Proposed Interim Rates to Most Recent Fiscal Year).

5. Effect of the interim rates expressed in gross revenue dollars and as a percentage of test year gross revenues (Policy Statement, Item 5, page 2)

The test year for Minnesota Power’s general rate increase filing is the calendar year ending December 31, 2024. Net of GNTL and PTC transfers from riders, the interim test year revenue

increase request is approximately \$63.6 million, or 8.6 percent. Including costs and allowances being transferred from riders to base rates, the gross increase in interim test year revenues is \$102.6 million, or approximately 13.8 percent above present base rate components.

**6. Certification by officer of the utility
(Policy Statement, Item 6, page 2)**

This Petition contains a Certification signed by Patrick L. Cutshall, ALLETE Vice President & Corporate Treasurer, affirming that this Interim Rate Petition complies with Minnesota Statutes.

7. Methods and procedures for refunding

Pursuant to Minn. Stat. § 216B.16, subd. 3, this filing contains Minnesota Power's Agreement and Undertaking of Refund.

8. Signature and title of the utility officer authorizing the proposed interim rates (Policy Statement, Item 7, page 2)

This Petition is signed by Patrick L. Cutshall, ALLETE Vice President & Corporate Treasurer.

**9. Supporting schedules and workpapers
(Policy Statement, Items 1-4, page 3)**

The supporting schedules and workpapers described in the Commission's Policy Statement are included along with this Petition. These schedules include the rate base amounts, income statement amounts, revenue deficiencies, capital structures, and rates of return required for interim rates as compared to: (1) the same information for Minnesota Power's general rate increase Application (Schedules F (IR)); (2) the allowed amounts in Minnesota Power's 2021 Rate Case (Docket No. E015/GR-21-335) (Schedules C (IR)); and (3) the most recent actual year (Schedules D (IR)). The schedules and workpapers containing the jurisdictional cost of service study and supporting the interim rate data are included in the Volume 1, Schedules A (Interim Jurisdictional Financial Summary Schedules), and Schedules B (Proposed Interim Rate Schedules), and in Volume 4 Workpapers, Interim Rates, IR-1 and IR-2, and Volume 4, Workpapers, Cost of Service, COS-1 – Cost of Service Interim Rates.

**10. Interim rate schedules; Revenue rate comparisons
(Minn. R. 7825.3600)**

The rate schedules containing proposed interim rates are included along with this Petition in Volume 1, Interim Tariff Sheets – Redlined and Interim Tariff Sheets – Clean. Consistent with Minn. Stat. § 216B.16, subd. 3, no change has been made in the existing rate design. Included with this Petition is a schedule of interim revenue impacts in the Comparison of Revenues – Present and Proposed Interim Rates, Volume 4 Workpapers, IR-1.

**11. Customer notice
(Minn. R. 7829.2400, Subp. 3; Minn. Stat. § 216B.16, subd. 1)**

Pursuant to Minn. R. 7829.2400, Subp. 3 and Minn. Stat. § 216B.16, subd. 1, Minnesota Power proposes to send a notice to the counties and municipalities it serves in Minnesota and a bill insert to its electric customers in the State of Minnesota. The proposed notice to counties and municipalities and a proposed customer notice pursuant to Minn. Stat. § 216B.16, subd. 1, are included with this filing. Minnesota Power will work with Commission Staff immediately to revise the notices as necessary for prompt Commission approval so that Minnesota Power can include the customer notices with the first bills issued with the interim rates. In addition, Minnesota Power will publish a display advertisement in the newspapers of general circulation in all county seats in Minnesota Power’s service territory as ordered by the Commission. The display advertisement will replicate the notice to the counties and municipalities, and will describe the rate schedules applicable to various customer classes. Minnesota Power’s proposed customer notice, proposed notices to counties and municipalities, and proposed newspaper advertisement are included in this Volume 1.

12. Interim rate bills

The Commission’s Policy Statement on Interim Rates suggests that changes in interim rates be shown on customer bills as a separate line item “if practical.” The interim rate amount will be shown as a separate line item identified as “Interim Rate Adjustment” and will reflect the total amount of the interim charge applied to the bill.

C. Conclusion

Minnesota Power hereby respectfully submits this Notice and Petition for Interim Rates. If the Commission suspends the operation of the general rate schedules under Minn. Stat. § 216B.16, subd. 2, Minnesota Power respectfully requests that the Petition for Interim Rates be promptly considered and accepted by the Commission, and that the interim rate schedule be approved and made effective on January 1, 2024, pursuant to Minn. Stat. § 216B.16, subd. 3, subject to refund pending final Commission action on the general rate increase Application.

Dated: November 1, 2023

Respectfully submitted,



Patrick L. Cutshall
ALLETE Vice President & Corporate
Treasurer
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(218) 722-2625

Subscribed to before me this 1st day
of November, 2023

 11/1/23
Notary Public

