



STATE OF MINNESOTA

October 24, 2014

The Honorable Ann C. O'Reilly
Minnesota Office of Administrative Hearings
600 North Robert Street
P.O. Box 64620
St. Paul, MN 55164-0620

RE: In the Matter of the Request of Minnesota Power for a Certificate of Need for the
Great Northern Transmission Line Project
MPUC Docket No. E015/CN-12-1163
OAH Docket No. 65-2500-31196

Dear Judge O'Reilly:

On behalf of the Minnesota Department of Commerce, Division of Energy Resources,
enclosed for filing in the above docket, please find the Rebuttal Testimony of Dr. Stephen
Rakow.

Sincerely,

/S/ Julia E. Anderson
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DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**MINNESOTA DEPARTMENT OF COMMERCE –
REBUTTAL TESTIMONY OF DR. STEPHEN RAKOW.**

Docket Nos. **E015/CN-12-1163**

Dated this **24th** day of **October, 2014**.

/s/Linda Chavez

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IN THE MATTER OF THE REQUEST OF
MINNESOTA POWER FOR A CERTIFICATE
OF NEED FOR THE GREAT NORTHERN
TRANSMISSION LINE PROJECT

Docket No. E015/CN-12-1163
OAH Docket No. 65-2500-31196

REBUTTAL TESTIMONY OF DR. STEVE RAKOW

ON BEHALF OF

**THE MINNESOTA DEPARTMENT OF COMMERCE,
DIVISION OF ENERGY RESOURCES**

OCTOBER 24, 2014

REBUTTAL TESTIMONY OF DR. STEVE RAKOW
IN THE MATTER OF THE REQUEST OF MINNESOTA POWER FOR A CERTIFICATE OF NEED FOR
THE GREAT NORTHERN TRANSMISSION LINE PROJECT

MPUC Docket No. E015/CN-12-1163
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1 I. INTRODUCTION AND PURPOSE

2 Q. Please state your name.

3 A. My name is Dr. Steve Rakow.

4
5 Q. Are you the same Dr. Rakow who previously submitted direct testimony on behalf of
6 the Minnesota Department of Commerce, Energy Regulation and Planning unit
7 (Department) in this proceeding?

8 A. Yes.

9
10 Q. What is the purpose of your rebuttal testimony?

11 A. I respond to Large Power Intervenors (LPI) witness Mr. Lane Kollen regarding the
12 conditions that Mr. Kollen recommends be placed upon the certificate of need.

13
14 Q. Does your assessment of rebuttal testimony by other parties change your position in
15 this proceeding?

16 A. Yes; as discussed below, I support one of Mr. Kollen's recommended conditions and
17 a modified version of another of his recommendations.

18
19 II. REBUTTAL TO LARGE POWER INTERVENORS

20 A. APPROVAL OF AGREEMENTS

21 Q. LPI witness Mr. Kollen's first recommendation, at page 3 of his direct testimony, was
22 that the Commission condition approval of the CN upon Commission approval of
23 MP's 133 MW Renewable Optimization Agreements (ROA) and the Facilities
24 Construction Agreement (FCA). Do you agree?

1 A. Yes. Regarding the FCA, MP's Mr. Donahue stated that "Once the FCA is executed it
2 will be forwarded to the Commission." MP Ex. ___ at 9 (Donahue Direct). Thus, MP
3 plans to submit the FCA to the Commission.

4 The ROA actually consists of two separate agreements, the *133 MW Energy*
5 *Sale Agreement* (ESA) and the *2014 Energy Exchange Agreement* (EEA). The ESA
6 lists as one of MP's conditions precedent, "the final approval of this Agreement by
7 the MPUC [Minnesota Public Utilities Commission] on conditions acceptable to MP."
8 MP Ex. ___ at Schedule 2 PUBLIC, Page 71 of 188 (Rudeck Direct). The EEA lists as
9 MP's condition precedent "the parties executing on the Effective Date the 133 MW
10 Energy Sale Agreement and all conditions precedent to that agreement being
11 satisfied." MP Ex. ___ at Schedule 2 PUBLIC, Page 161 of 188 (Rudeck Direct).
12 Thus, MP must submit the ESA for Commission approval and the EEA depends upon
13 ESA approval.

14 Given that MP plans to submit both the FCA and ESA and that these
15 agreements potentially impact the cost allocated to ratepayers for MP's proposed
16 500 kV transmission line relative to the 230 kV alternative, I conclude that Mr.
17 Kollen's first recommendation is reasonable and I support his recommendation.

18
19 B. *COST CAP*

20 Q. **LPI witness Mr. Kollen's second recommendation, at pages 3-4 of his direct**
21 **testimony, was that the Commission establish a cost cap in this proceeding. Do you**
22 **agree?**

23 A. I recommend a modified version of Mr. Kollen's recommendation. The Department
24 has typically addressed concerns regarding cost caps in the rider or rate case

1 proceeding in which cost recovery from retail ratepayers is first requested. Thus,
2 there will be a subsequent cost recovery proceeding regarding MP's proposal and it
3 may not be necessary to address cost caps at this time. However, the Department
4 certainly does not oppose making clear to MP the terms of their future cost recovery,
5 consistent with the Commission's approach regarding cost recovery of projects in
6 other CNs: 1) MP would be limited to recover in riders only the amount of costs that
7 MP proposes in this proceeding 2) MP could request recovery of costs above the CN
8 amount only in a rate case, but 3) MP would have the burden of proof to show that
9 any such costs are prudent and why it would be reasonable to recover such costs
10 from ratepayers.

11 The Commission stated the purpose of this approach in a 2010 proceeding
12 (for example) regarding cost recovery of energy facilities owned by Northern States
13 Power, d/b/a Xcel Energy (Xcel) in Docket No. E002/M-09-1083:

14 The Commission will allow Xcel to recover, through its RES rider,
15 only the costs up to the amounts of the initial estimates at the
16 time the projects are approved as eligible projects. No amounts
17 above what Xcel initially indicated the projects would cost will
18 be allowed to flow through the RES rider. Nor will additional
19 cost overruns be eligible for deferred accounting.
20

21 However, Xcel will be allowed to seek recovery, on a prospective
22 basis, of additional costs at the time of its next rate case, upon
23 a showing that it is reasonable to require ratepayers to pay for
24 any such additional costs. This approach allows Xcel to recover
25 the majority of the costs for projects eligible for RES rider
26 recovery promptly, while providing at least some incentive for
27 Xcel to minimize costs and help protect ratepayers.

28 Likewise, to give MP an incentive to minimize costs and to help protect ratepayers,
29 putting MP on notice in this proceeding about future cost recovery would be
30 reasonable.

1 C. *OTHER RECOMMENDATIONS*

2 Q. At pages 4-5 of his direct testimony LPI witness Mr. Kollen recommended that the
3 Commission:

- 4 • require MP to accrue AFUDC (allowance for funds used during
5 construction) rather than carrying charges during construction;
- 6 • authorize rate recovery for MP through a rider rather than base rates; and
- 7 • require MP to use revenues as the allocator for the costs in question.

8 Do you agree?

9 A. These issues are cost recovery details that do not need to be addressed at this time.
10 Thus, I recommend that the Commission take no action regarding these issues.

11
12 D. *SUMMARY OF THE DEPARTMENT'S RECOMMENDATIONS*

13 Q. Please summarize your recommendations to date.

14 A. Many of the recommendations in my direct testimony were for MP to provide
15 information in their rebuttal testimony, since I intend to examine that information.
16 Thus, at this time my recommendations are limited to the following. I recommend that
17 the Commission:

- 18 • order MP to use the Commission's externality values in all certificate of
19 need petitions and put MP on notice that failure to do so would result in
20 such CN filings being found to be incomplete in the future;
- 21 • adopt Mr. Kollen's recommendation that the Commission condition
22 approval of the CN upon Commission approval of MP's 133 MW
23 Renewable Optimization Agreements (ROA) and the Facilities Construction
24 Agreement (FCA);

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- put MP on notice regarding future cost recovery that:
 - 1) MP would be limited to recover in riders only the amount of costs that MP proposes in this proceeding,
 - 2) MP could request recovery of costs above the CN amount only in a rate case, and
 - 3) MP would have the burden of proof to show that any such costs are prudent and why it would be reasonable to recover such costs from ratepayers; and
- take no action at this time on AFUDC, rider vs. base rate recovery or rate design.

III. CONCLUSION

Q. Does this conclude your Rebuttal Testimony?

A. Yes.