

# Fall Forum

State Assessed Property Section



Working together to fund Minnesota's future | [www.revenue.state.mn.us](http://www.revenue.state.mn.us)

Welcome

# Agenda

Topic
Registration
Welcome
Public Utilities Commission
Division of Energy Resources
State Assessed Property Updates
Administrative Appeals Process Review
Panel Discussion
Break Out Sessions
Group Debrief

# OVERVIEW OF THE MINNESOTA PUBLIC UTILITIES COMMISSION

State Assessed Property Fall Forum  
Minnesota Department of Revenue  
November 14, 2018

**Janet F. Gonzalez**  
Regulatory Analysis Division Manager

# Topics

- **Overview of the Public Utilities Commission Organization and Areas of Responsibility**
- **Electric and Natural Gas Utility Ratemaking**
- **Evolution of the Electric System**

# Minnesota Public Utilities Commission

## Mission Statement

**The Minnesota Public Utilities Commission's mission is to create and maintain a regulatory environment that ensures safe, adequate and efficient utility services at fair, reasonable rates consistent with State telecommunications and energy policies.**

# **Minnesota Public Utilities Commission**

## **Overview of Responsibilities**

- **Regulate rates and services of three critical public service industries**
  - **Electricity**
  - **Natural gas**
  - **Local telephone service (limited rate regulation)**
- **Determine need for and physical location of large energy facilities**
- **Mediate issues between consumers and regulated entities**

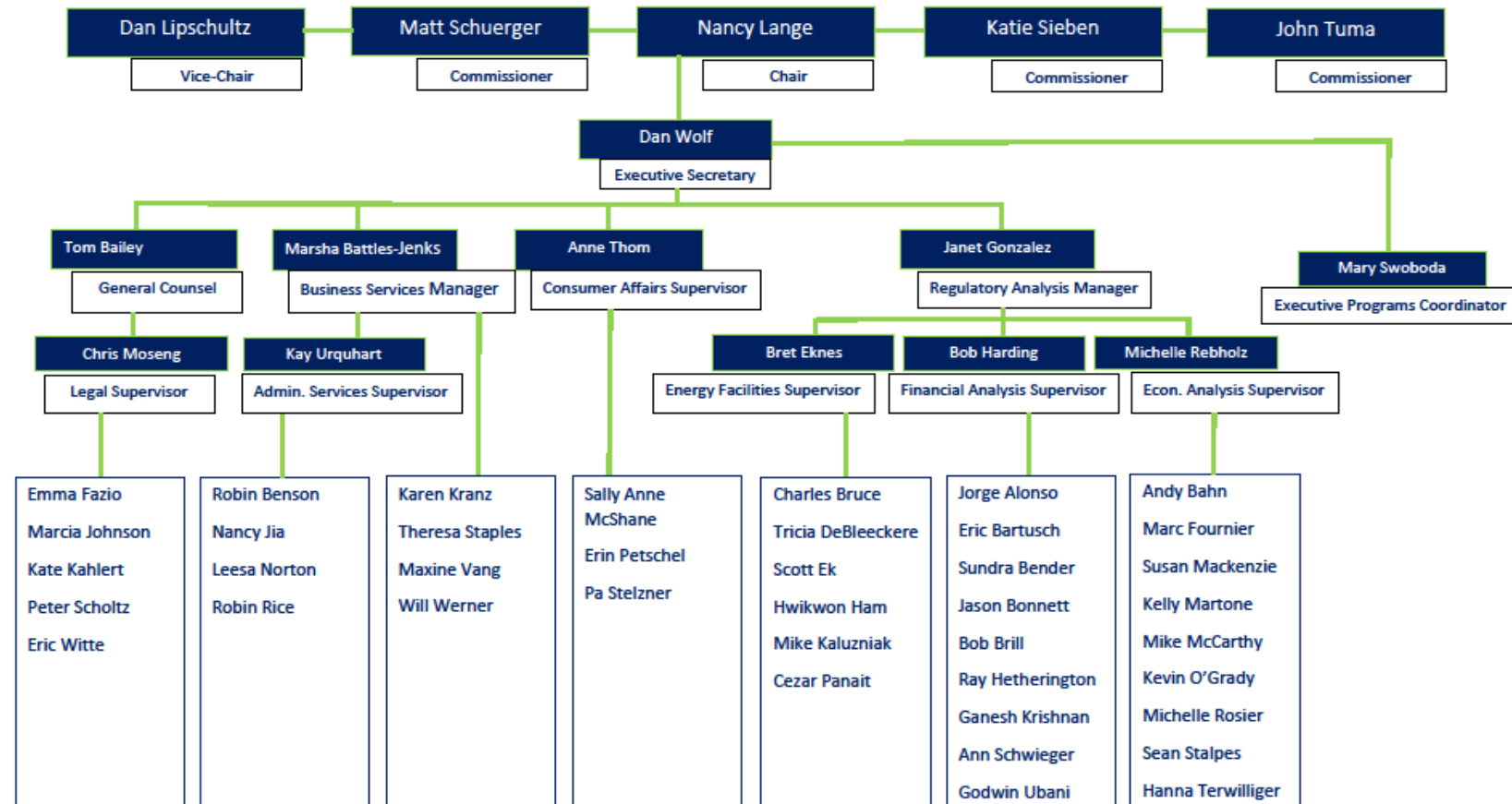
# Minnesota Public Utilities Commission

## Commissioners

- **An independent regulatory entity with quasi-judicial and quasi-legislative roles**
- **Made up of 5 Commissioners**
  - **appointed by the Governor and confirmed by the Senate**
  - **Serve staggered 6 year terms**
  - **No more than 3 from one political party**
  - **Removed only for cause**



# Minnesota Public Utilities Commission Organization Chart



November 2018

# Minnesota Public Utilities Commission

## Energy-Related Responsibilities

- **Setting just and reasonable rates for investor- owned utilities and regulated cooperatives**
- **Utility Service Quality**
- **Electric Service Areas**
- **Resource Planning & Environmental Requirements**
- **Compliance with Renewable Energy Standards**
- **Certificates of Need for Large Energy Facilities**
- **Siting & Routing for Large Energy Facilities**

# Ratemaking

## Statutory Requirements- Reasonable Rates

- **Minn. Stat. 216B.03, Reasonable Rate**
  - **Just and reasonable**
  - **Not unreasonably preferential, prejudicial, or discriminatory**
  - **Sufficient, equitable, and consistent in application to a class of customers**
  - **To maximum reasonable extent, encourage conservation and renewables**
  - **Any doubt as to reasonableness to be resolved in favor of the consumer**

# Ratemaking

## Statutory Requirements- General

- **Minn. Stat. 216B.16, subd. 6**
  - **Public's need for adequate, sufficient, and reasonable service**
  - **Utility's need for revenue sufficient to meet the cost of furnishing service, including**
    - **Depreciation on property used and useful in rendering service to the public**
    - **Earning a fair return on such property**

# Ratemaking Statutory Requirements- Rate Base

- **Minn. Stat. 216B.16, subd. 6 (cont.)**
  - **In determining the rate base upon which the utility is to earn a fair rate of return, the Commission shall:**
    - **Consider the original cost of the utility property with no allowance for its estimated current replacement value**

# Ratemaking

## Types of Processes

- **General Rate Cases**

- Comprehensive look at the utility's revenue requirements (revenues, expenses, return, rate design)

- **Miscellaneous Dockets**

- Changes that do not require a determination of the overall revenue requirement

- **Rate Riders and Automatic Adjustments**

- Allow changes for specific types of costs outside of a rate case

- **Deferred Accounting**

- Allow for possible recovery of non-test year costs in a future rate case

# Ratemaking

## General Rate Cases- Process

- **Information and content requirements set out in statute and rules**
- **10 month process, which can be extended for 60 days for settlement discussions or up to 90 days if other pending rate cases**
- **Hearings are conducted by an Administrative Law Judge from the Office of Administrative Hearings**

# Ratemaking

## General Rate Cases- Interim Rates

- **Commission required to set interim rates within 60 days of a general rate case filing**
- **Unless the Commission finds exigent circumstances, interim rates based on the utility's proposed test year revenue requirement, except:**
  - **Rate of return on equity kept at that allowed in last rate case for that utility**
  - **Rate base and expense items must be same in nature and kind as allowed in last rate case**



# Ratemaking

## General Rate Cases- Participants

- **The Department of Commerce intervenes in all rate cases and conducts a comprehensive review and testimony on all major issues**
- **The Office of the Attorney General, Utilities and Anti-trust Division often intervenes on issues related to residential and small business**
- **Other intervenors may include representatives of large customers, low income customers, or environmental groups, among others**
- **Public hearings and written comments**

# Ratemaking

## General Rate Cases

- **Determine the utility's revenue requirement, i.e. what revenues the utility needs to provide:**
  - **Safe, adequate, and reliable service to customers**
  - **A fair and reasonable return to investors**
- **Determine what revenues would result from the utility's current rates under normal conditions**
- **Determine whether a rate increase or decrease is warranted**

# Ratemaking

## General Rate Cases

- **Need to identify the revenues and costs specifically related to the jurisdiction and service for which are setting rates. The utility may:**
- **Operate in more than one state**
- **Have both wholesale (FERC jurisdictional) and retail (state jurisdictional) operations**
- **Provide more than one type of service (gas & electric)**
- **Have non-regulated operations**

# Ratemaking

## General Rate Cases- Revenue Requirement

- **Determine a period over which to measure revenue requirement, called a Test Year**
- **A measure of the utility's revenues, operations and rate base in some specified 12 month period**
- **Purpose: ensure rates are based on the costs expected during the period rates are in effect**
- **Matching revenues to required costs: Matching Principle**

# Ratemaking

## General Rate Cases- Revenue Requirement

### **Exclusions from the Revenue Requirement:**

- **Investments and expenses that are not used and useful in providing utility service or were not prudently incurred.**
- **Costs for which recovery is prohibited in whole or in part by statute or rule (political contributions, promotional advertising)**

# Ratemaking

## General Rate Cases- Revenue Requirement

- **Value of utility plant (V) - value of plant facilities and other assets required to provide utility service**
- **Accumulated depreciation (AD) - the total amount of a plant's cost allocated to depreciation expense since the asset has been in service**
- **$V - AD = \text{Rate Base (RB)}$** 
  - **Measure of asset value at given point in time**
- **Allowed rate of return (r) – return authorized by regulators to be used in calculating final rates**
- **$(V - D)r = \text{revenue flow} \approx \text{profit}$**

# Ratemaking

## General Rate Cases- Revenue Requirement

- **Operating Expenses – costs of using and maintaining plant assets providing utility services**
- **Current Depreciation – value of physical assets consumed in the process of providing utility services**
- **Taxes – income, property, sales, other**

- **Class Revenue Responsibility**
  - **Commission has generally found class cost of service studies (CCOSS) to be a guide in determining revenue allocation to classes, but recognize that CCOSS have a myriad of assumptions and choices underlying the results**
  - **Also, other factors are considered such as avoidance of “rate shock”, i.e. may need to be a more limited increase to certain classes**



# Ratemaking

## General Rate Cases

- **Rate Structure – How should the specific rates be designed?**
  - **Customer (fixed), demand, energy charges**
  - **Time of day, seasonal, interruptible**
- **Some other factors to be considered:**
  - **Continuity with past rates**
  - **Relatively easy to understand and administer**
  - **Effects on Conservation**
  - **Ability to Pay**

# Ratemaking

## General Rate Cases- Process

- **Under Minn. Stat. 216B.16, the utility generally determines when it will file a general rate case with the Commission**
- **Under Minn. Stat. 216B.17, the Commission may investigate on its own or upon complaint utility rates and practices.**
- **After investigation and hearing, the Commission may order a utility to initiate a rate case, but must give them at least 120 days to do so after an order is issued.**

- **Rate riders allow for changes in rates outside of a general rate case**
- **“Automatic” adjustments for cost of gas (PGA) and cost of fuel (FCA) have been in place in Minnesota for more than 35 years**
- **Trackers for Conservation Improvement Plan (CIP) investments and expenses, and annual rate factor adjustments, started more than 30 years ago**

- **The legislature has authorized many new categories of riders, especially in the last 10 years, generally to further certain policy goals**
- **There are more than 20 rider mechanisms that can potentially be used**
- **These include Renewable Generation, Transmission, and Environmental Improvement riders**

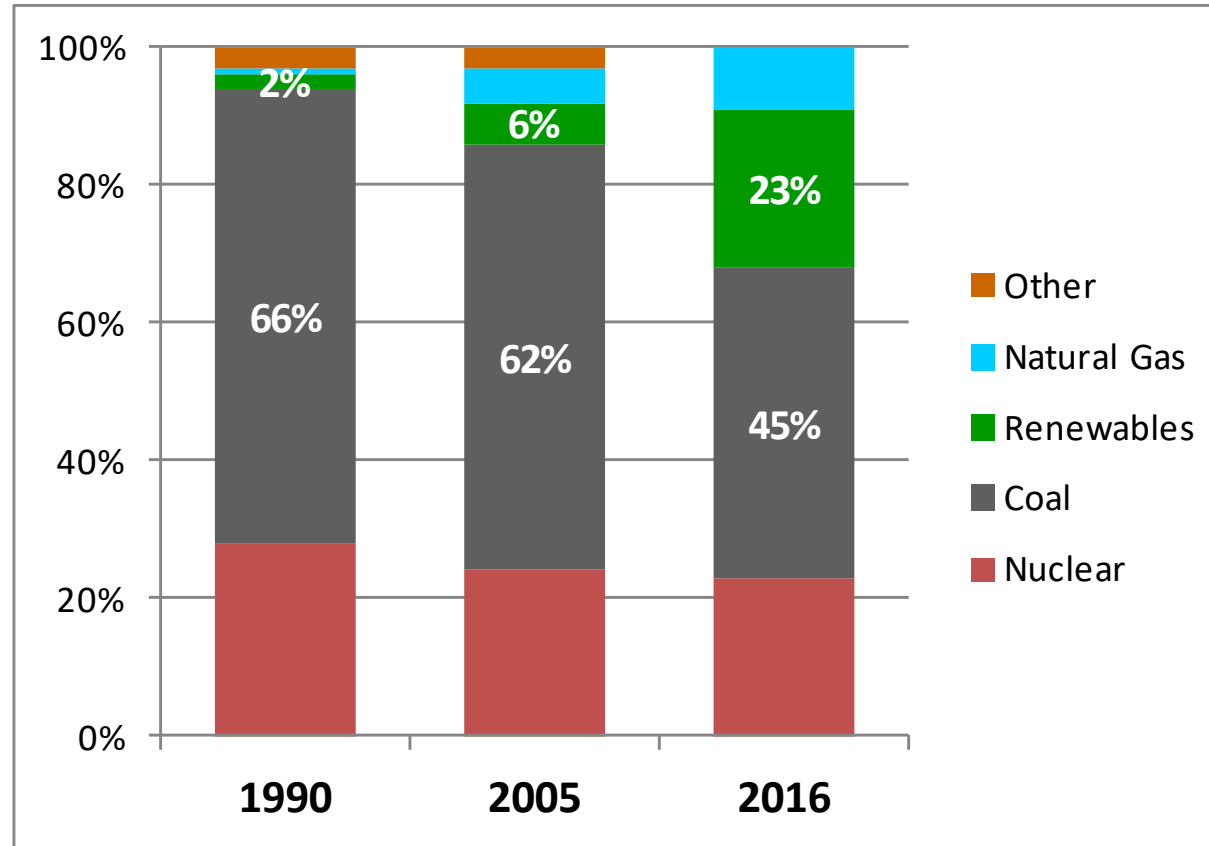
# Evolving Electric System

**Minnesota's electric system is at a time of significant change as:**

- **Large power plant infrastructure ages**
- **Costs of wind and solar continue to fall**
- **New generation, storage, and communications, and other technologies continue to develop and decrease in cost**
- **Consumer demands evolve**

# Minnesota Generation Fleet Transition

## *Experience to date: 1990 - 2016*



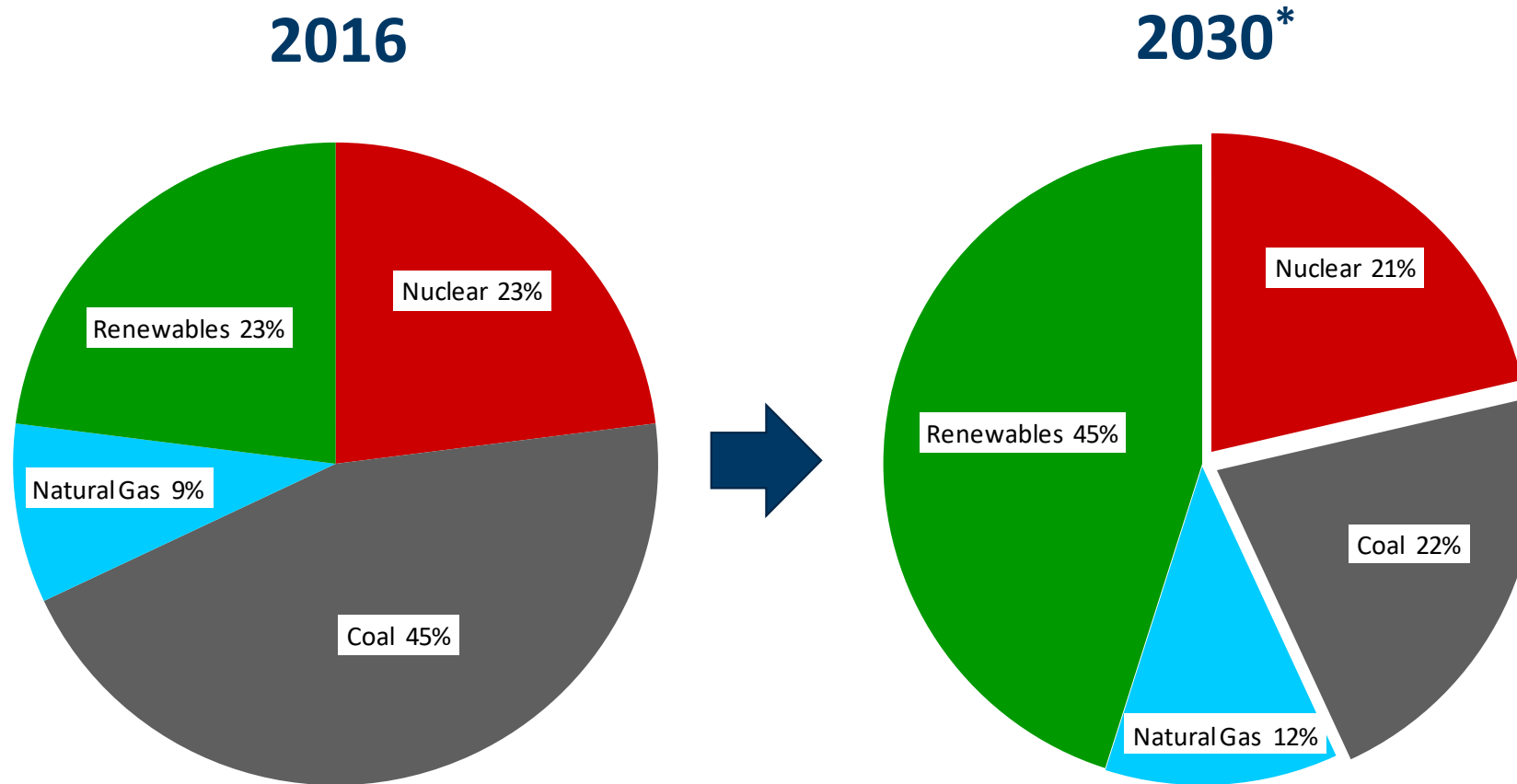
# Minnesota Generation Fleet Transition

## *Upcoming Challenge: 2020 - 2040*

		Power Plant	Commercial Operation	Capacity (MW)	Announced Retirement or End of Economic Life	
MN Power	Coal	Boswell 1 & 2	1960	130	2018	Retirement
Otter Tail	Coal	Hoot Lake 2 & 3	1959, 1964	140	2021	Retirement
Xcel Energy	Coal	Sherco 1 & 2	1976, 1977	1360	2026, 2023	Retirement
Xcel Energy	Nuclear	Monticello	1971	670	2030	Operating license
Xcel Energy	Nuclear	Prairie Island 1 & 2	1973, 1974	1100	2033, 2034	Operating license
Xcel Energy	Coal	Sherco 3	1987	860	2034	Economic life
MN Power	Coal	Boswell 3 & 4	1973, 1980	940	2035, 2036	Economic life
Xcel Energy	Coal	Allen S. King	1968	510	2037	Economic life

# Minnesota Electricity in Transition

## *Current Plans: 2016 - 2030*

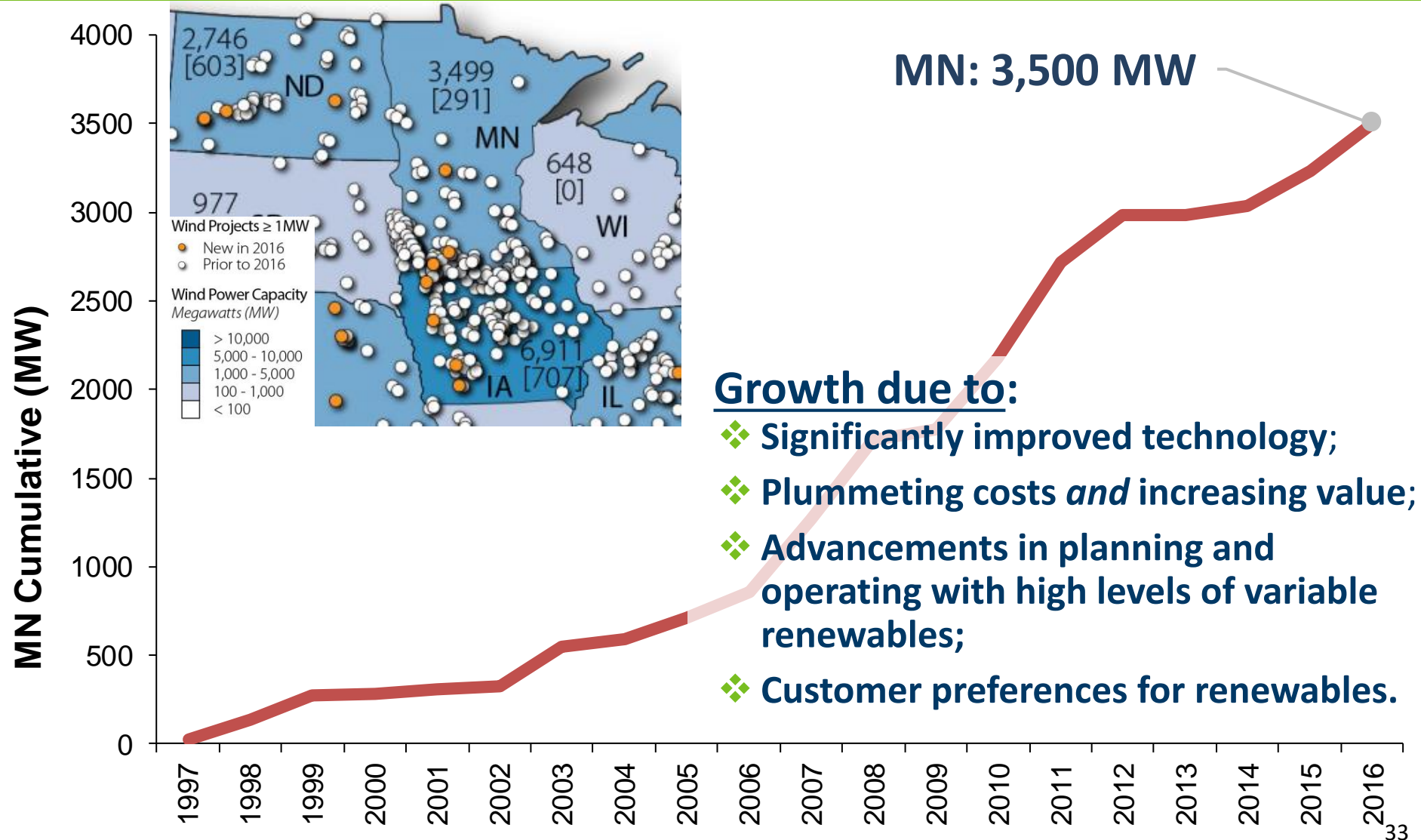


\* Based on MN IOU IRPs & announcements



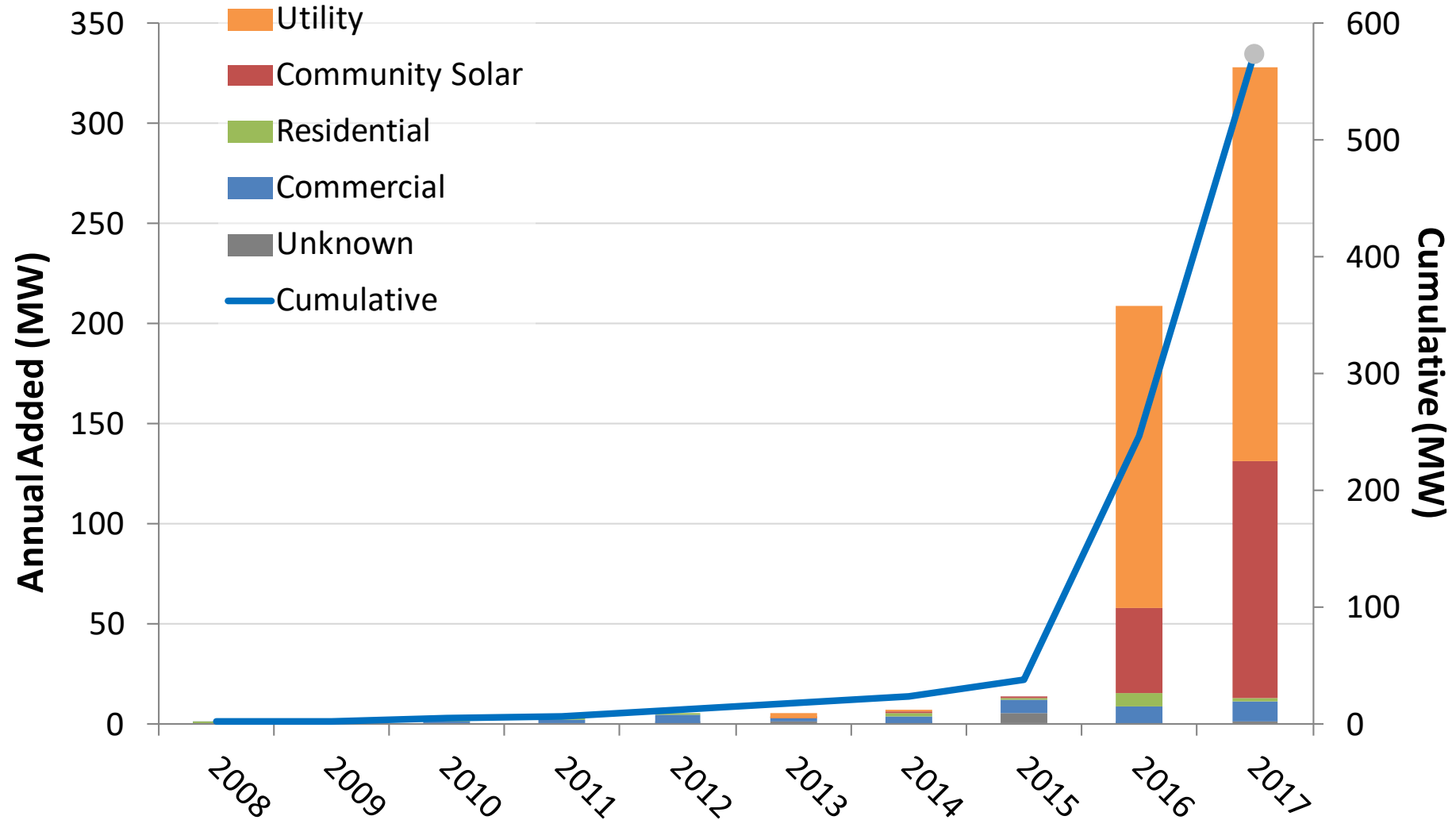
# Wind Capacity

as of January 2017



# Solar Capacity

as of October 2017



# Thank you!

Janet F. Gonzalez

Regulatory Analysis Division Manager

[Janet.Gonzalez@state.mn.us](mailto:Janet.Gonzalez@state.mn.us)

651-201-2231



## **2018 State Assessed Property Fall Forum**

### **Division of Energy Resources & Conservation Improvement Program Overview**

**Anthony Fryer | CIP Coordinator**

# Division of Energy Resources – Business Units



# 56 State Energy Offices:

- Advance practical energy policies;
- Support energy technology research, demonstration, and deployment;
- Accelerate energy-related economic development;
- Enhance environmental quality;
- Support domestic energy development and infrastructure;
- Allocate and/or aid in oversight of funds derived from ratepayers and state appropriations annually; and
- Aid in emergency response and mitigation related to energy infrastructure, liquid fuels, and cyber security.

# Minnesota State Energy Office

## Clean Energy & Programs

- Clean Energy Technologies
- Program Connections
- Weatherization Assistance Program

## Energy Efficiency & Operations

- SEO Operations
- Energy Efficiency & Assurance
- Conservation Improvement Program



## **2018 State Assessed Property Fall Forum**

### **CIP Overview: History, Requirements, Achievements**

Anthony Fryer | CIP Coordinator



# History of Minnesota CIP

**1980:**

PUC directed to initiate a pilot to demonstrate the “feasibility” of investments in EE

**1989:** All Public utilities were required to operate conservation improvement programs. Oversight transferred from PUC, low-income requirements added.

**1991:**

A specific level of spending was required (1.5% electric, 0.5% gas) & munis and coops were included.

**2007:**

**Next Generation Energy Act**

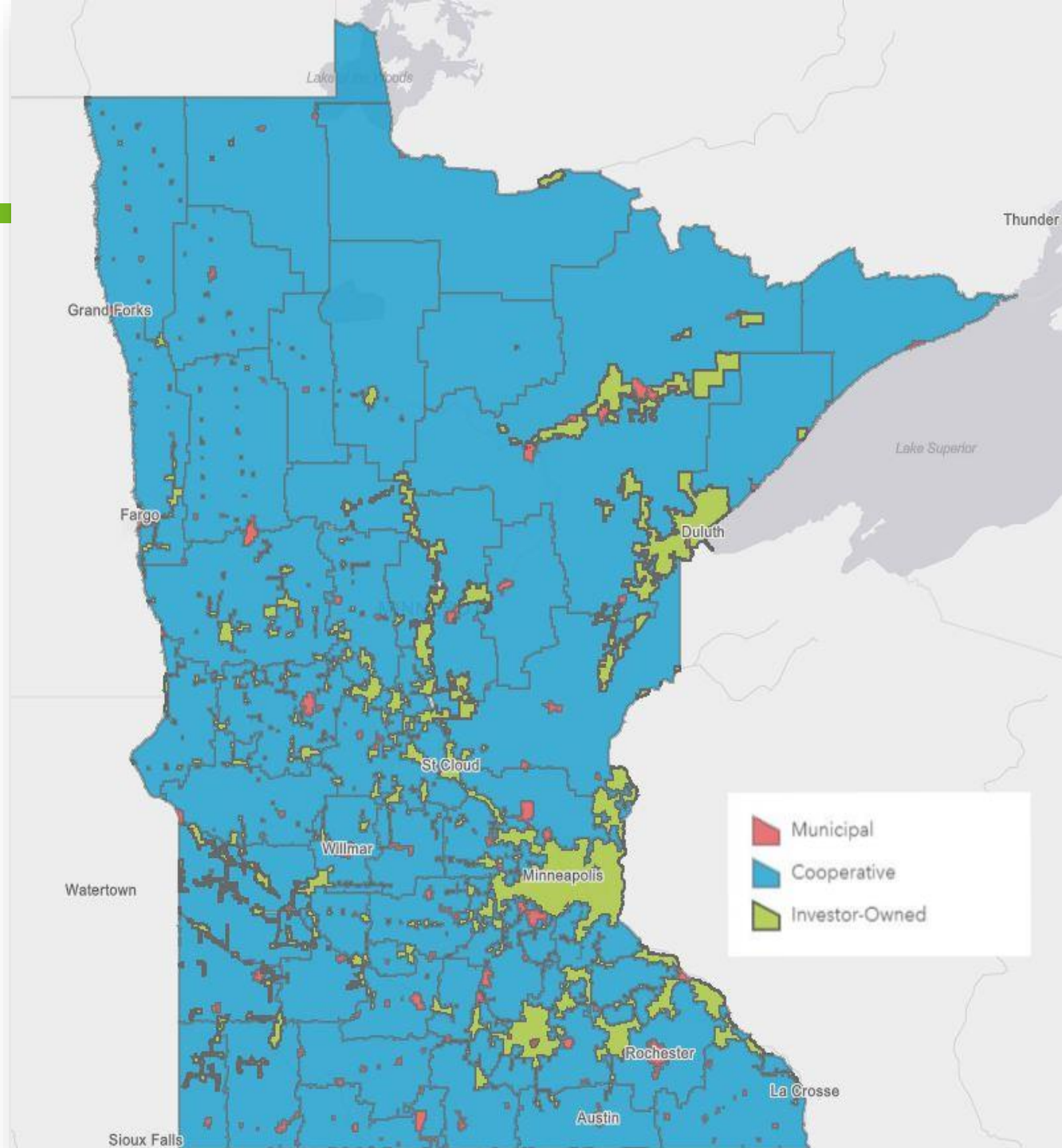
**1983:** Utilities with revenues greater than \$50 million were required to operate at least 1 conservation program. Required “significant” investment.

**1994:** Prairie Island settlement required [Xcel] to spend 2.0% of their annual GOR. Programs began to be evaluated against a pre-set goal.

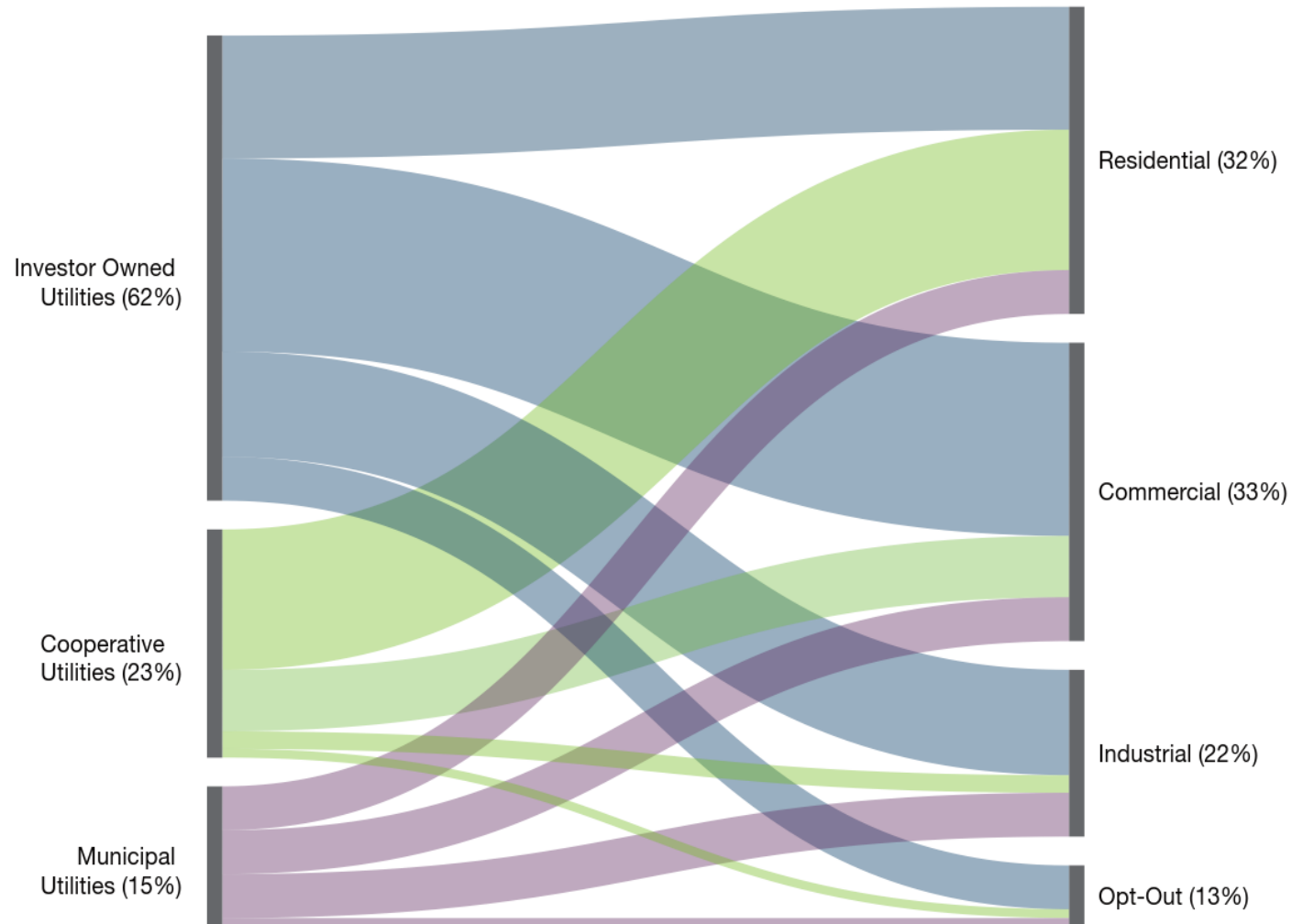
**2010:**

1.5% Savings Goal for Utilities takes Effect

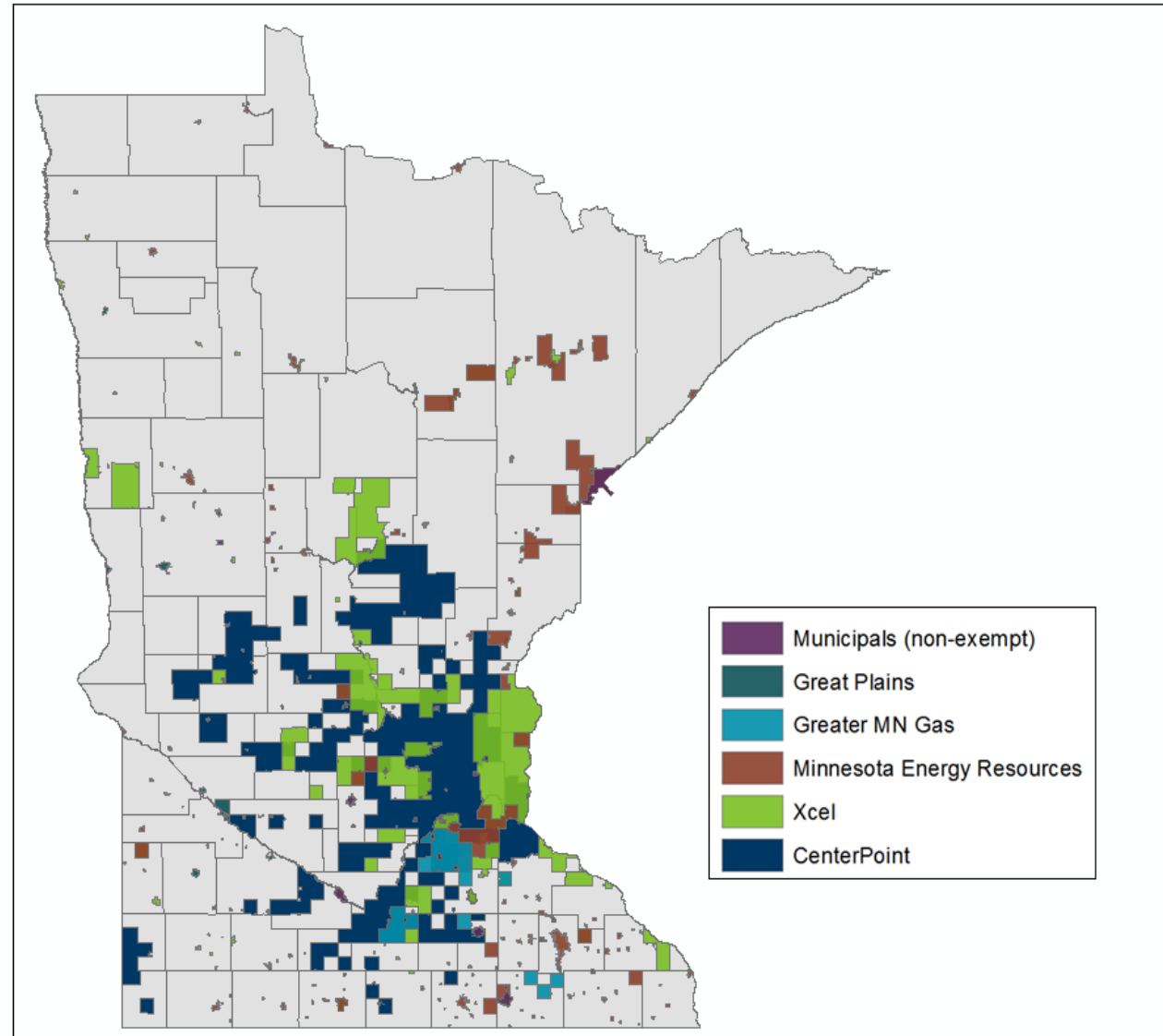
# Minnesota a Electric Utilities



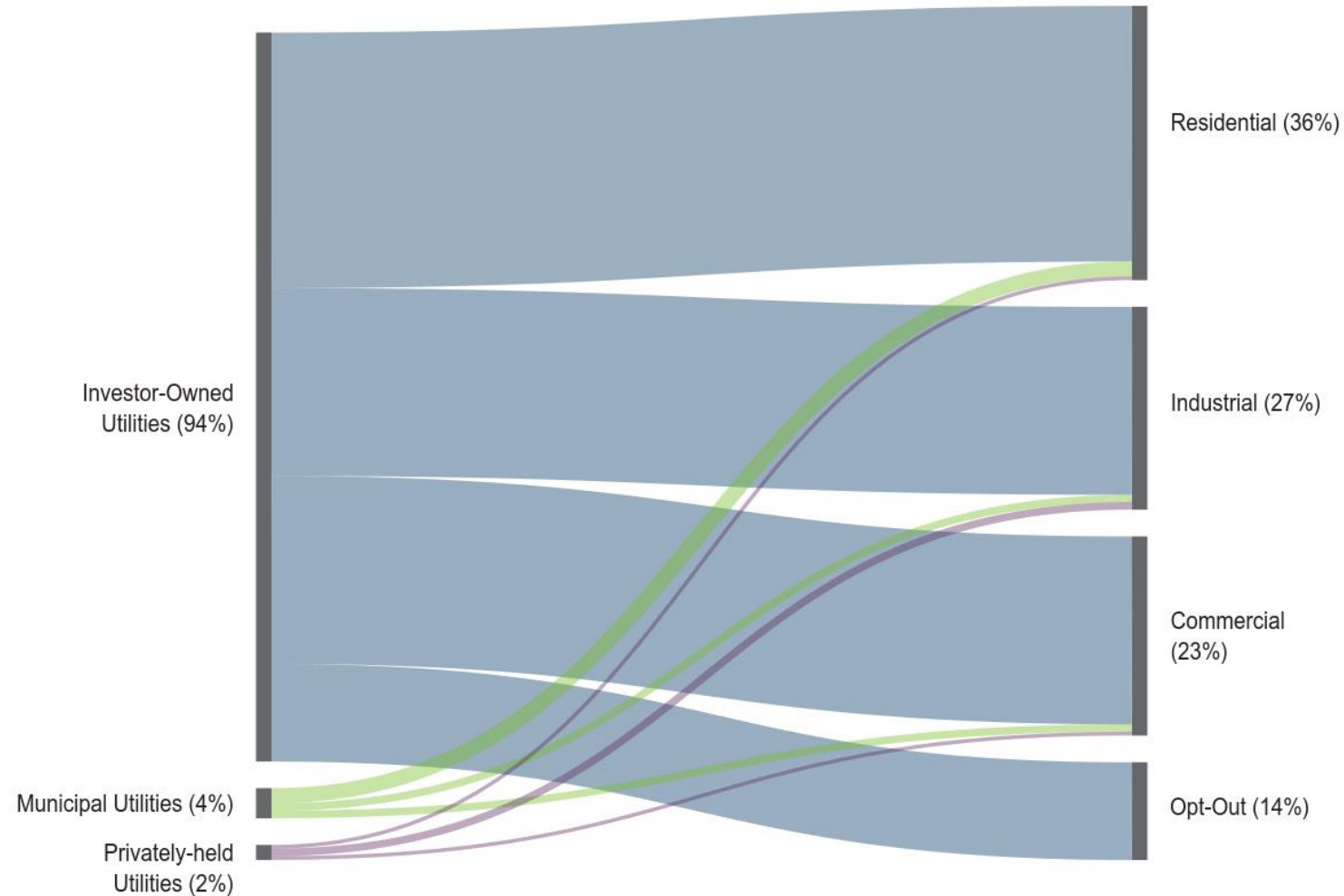
# Electric Utility Load by Utility Type and Sector



# Minnesota Natural Gas Utilities



# Natural Gas Utility Load by Utility Type and Sector



# 2007 Next Generation Energy Act

SPENDING



SAVINGS

# CIP Savings & Spending Requirements

## Utility Energy Savings Goal

- 1.5% of gross annual retail energy sales
- Utility can request lower savings goal ( $\geq 1\%$ )

## Utility Spending Requirement

- Natural gas utilities: At least 0.5% of gross operating revenues (GOR)
- Electric utilities: At least 1.5% of GOR

## Minnesota Statutes

216B.241, 216B.2411 and 216B.2401

## Minnesota Rules

Chapter 7690



# New Utility Exemption Language

Minnesota Statutes section 216B.241 subd 1b(a): **Conservation improvement by cooperative association or municipality.**

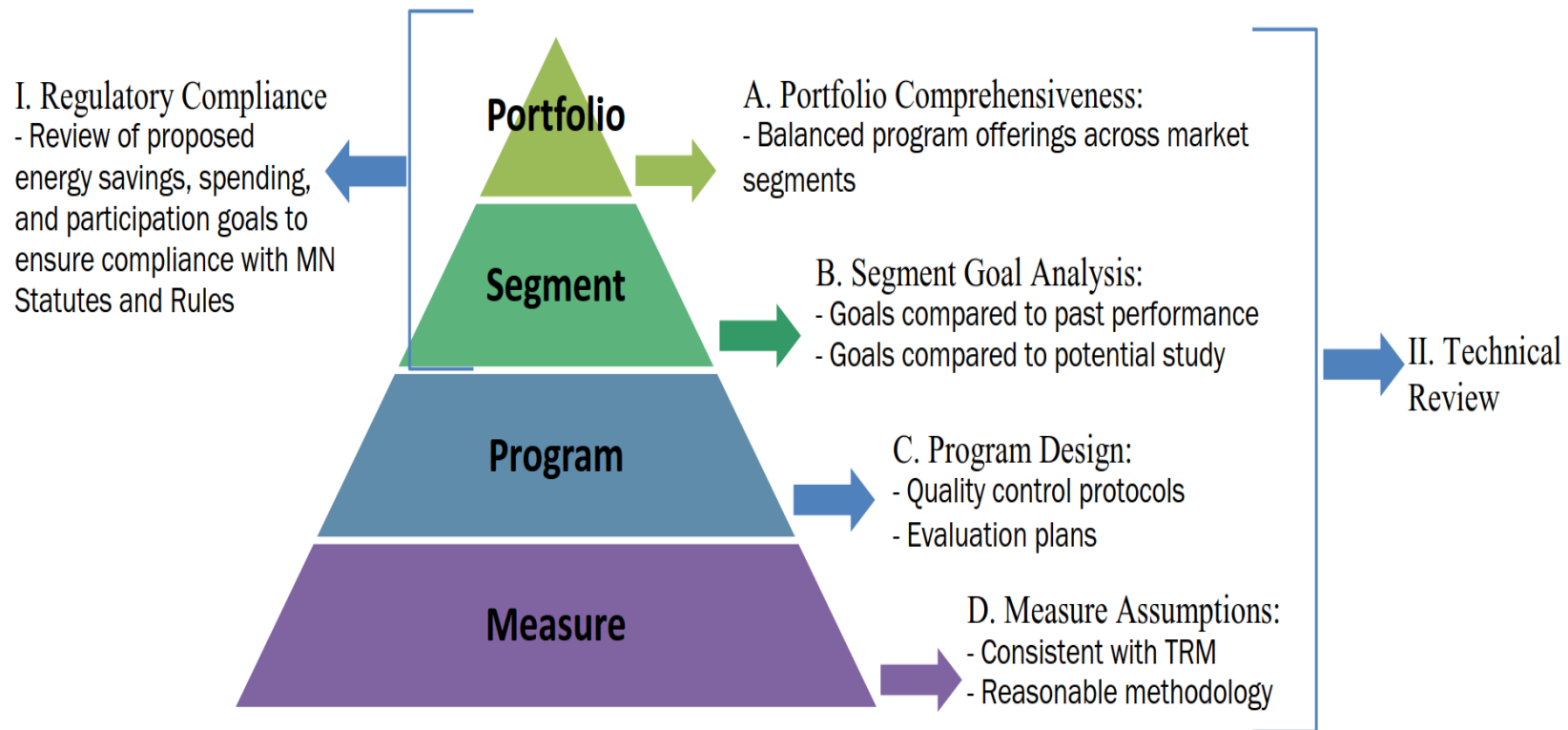
(a) This subdivision applies to:

- (1) a cooperative electric association that provides retail service to more than 5,000 members;
- (2) a municipality that provides electric service to more than 1,000 retail customers; and
- (3) a municipality with more than 1,000,000,000 cubic feet in annual throughput sales to natural gas retail customers.

# CIP Plan and Performance Reviews

- IOU CIP Triennial Plans and Status Reports
  - 2017-2019 triennial period
  - Triennial plans submitted June 1 in year prior to new triennial period
  - Annual status reports submitted March 1 (electric)/April 1 (natural gas)
- Muni and Coop CIP Annual Reports and Plans
  - Report for previous year/plans for next year
  - Submitted June 1

# Technical and Regulatory Review



# Low-Income Spending Requirements

## Electric IOUs and COUs

“Must spend **at least 0.2 percent** of its gross operating revenues from residential customers in the state on low-income programs”

## Gas IOUs

“Must spend **at least 0.4 percent** of its most recent three-year average gross operating revenue from residential customers in the state on low-income programs”

## Gas COUs

“Must spend **at least 0.2 percent** of its most recent three-year average gross operating revenue from residential customers in the state on low-income programs”

Minnesota Statutes section 216B.241

subd. 7(a)

# What is Considered Low-Income?

- Discretion of utilities
- Most utilities use the Minnesota Weatherization Assistance Program (WAP) and Energy Assistance Program (EAP) eligibility thresholds:
  - 200% federal poverty level (FPL)
  - 50% State Median Income (SMI)
- 2001-2006: 50% SMI
- 1990's-2000: 185% FPL

Household Size	50% SMI (2017)	200% FPL (2017)
1	\$24,541	\$24,120
2	\$32,092	\$32,480
3	\$39,643	\$40,840
4	\$47,194	\$49,200
5	\$54,745	\$57,560
6	\$62,296	\$65,920
7	\$63,712	\$74,280
8	\$65,128	\$82,640

# Other CIP Provisions

- Opt-out Customers
  - Large customer facilities can petition to exempt utilities from investment and expenditure attributable to the customer. (216B.241 subd. 1a(b))
- Aggregators
  - Coops and municipalities can group together to fulfil CIP spending and savings requirements (except low-income spending requirement.) (216B.241 subd. 1b(f))
- Non-efficiency Spending Caps
  - Utilities may use CIP spending for R&D (10%), distributed energy resources (10%) and load management (50%)

# Other CIP Provisions (Continued)

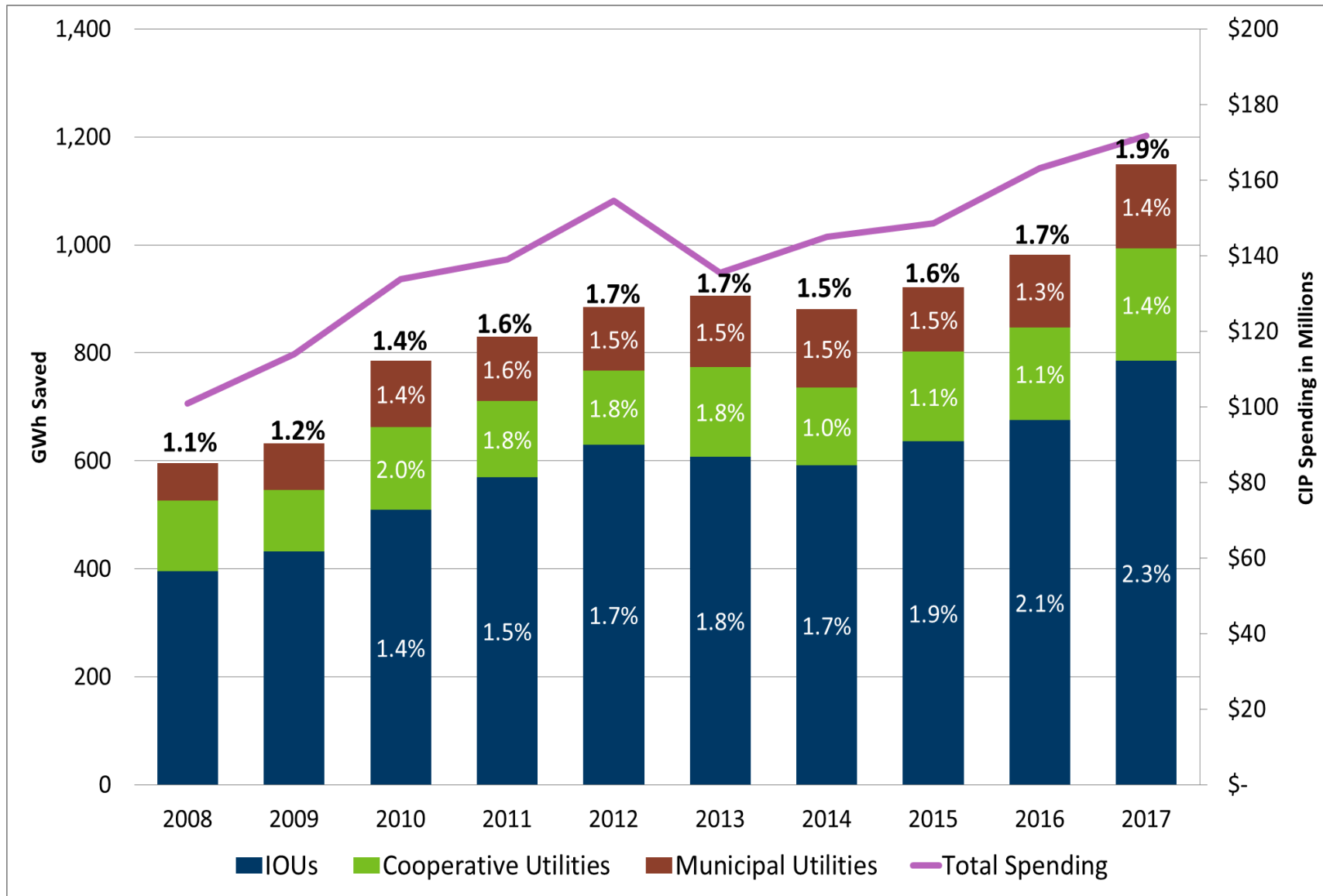
- Carry Forward Savings

- A utility or association may elect to carry forward energy savings in excess of 1.5% for a year to the succeeding three calendar years. (216B.241 subd. 1c(b))

- Electric Utility Infrastructure Projects

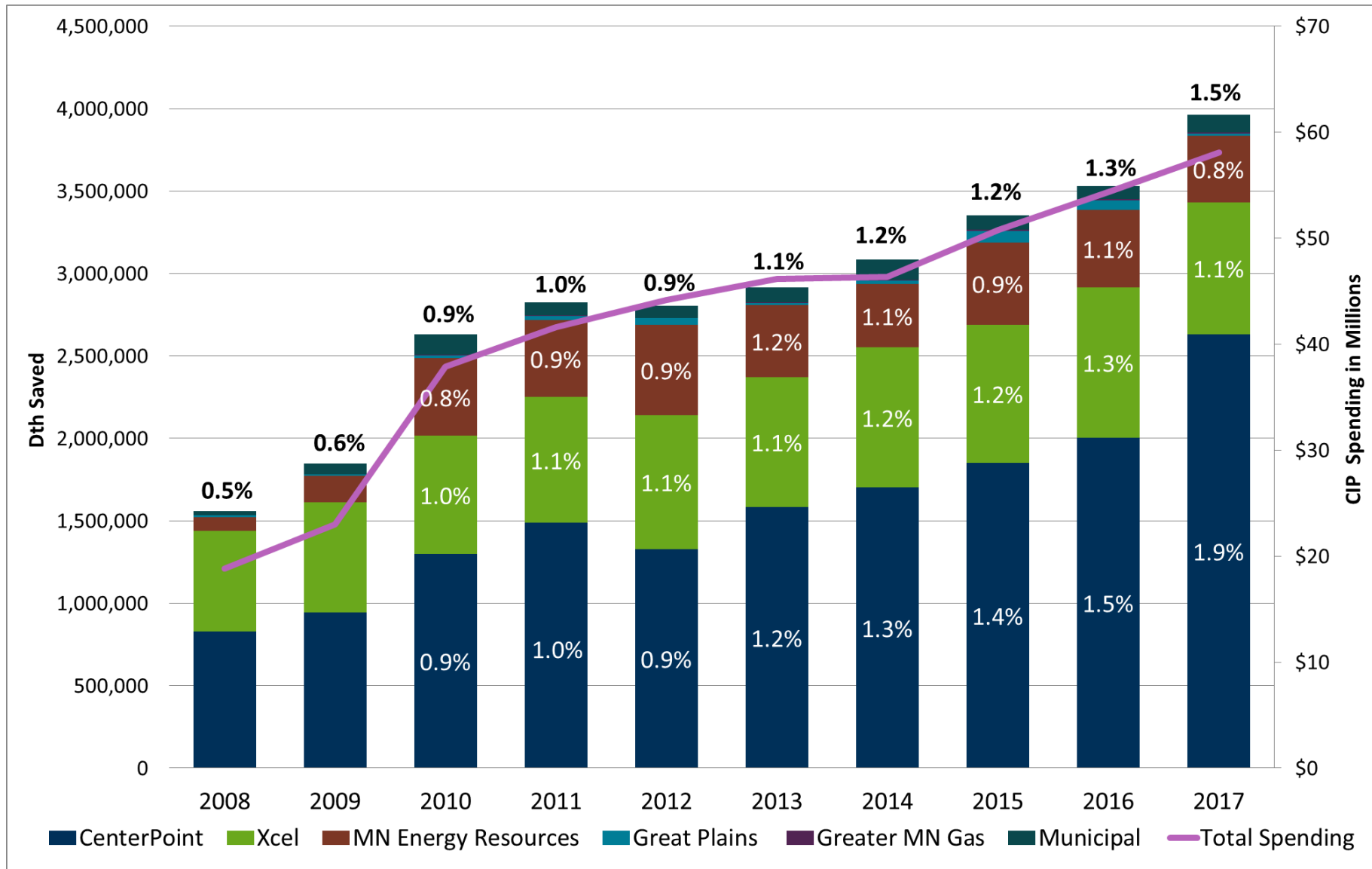
- A utility or association may include in its energy conservation plan energy savings from electric utility infrastructure projects . . . that may count as energy savings in addition to a minimum energy-savings goal of at least one percent for energy conservation improvements. (216B.241 subd. 1c(d)).

# Minnesota CIP Electric Achievements

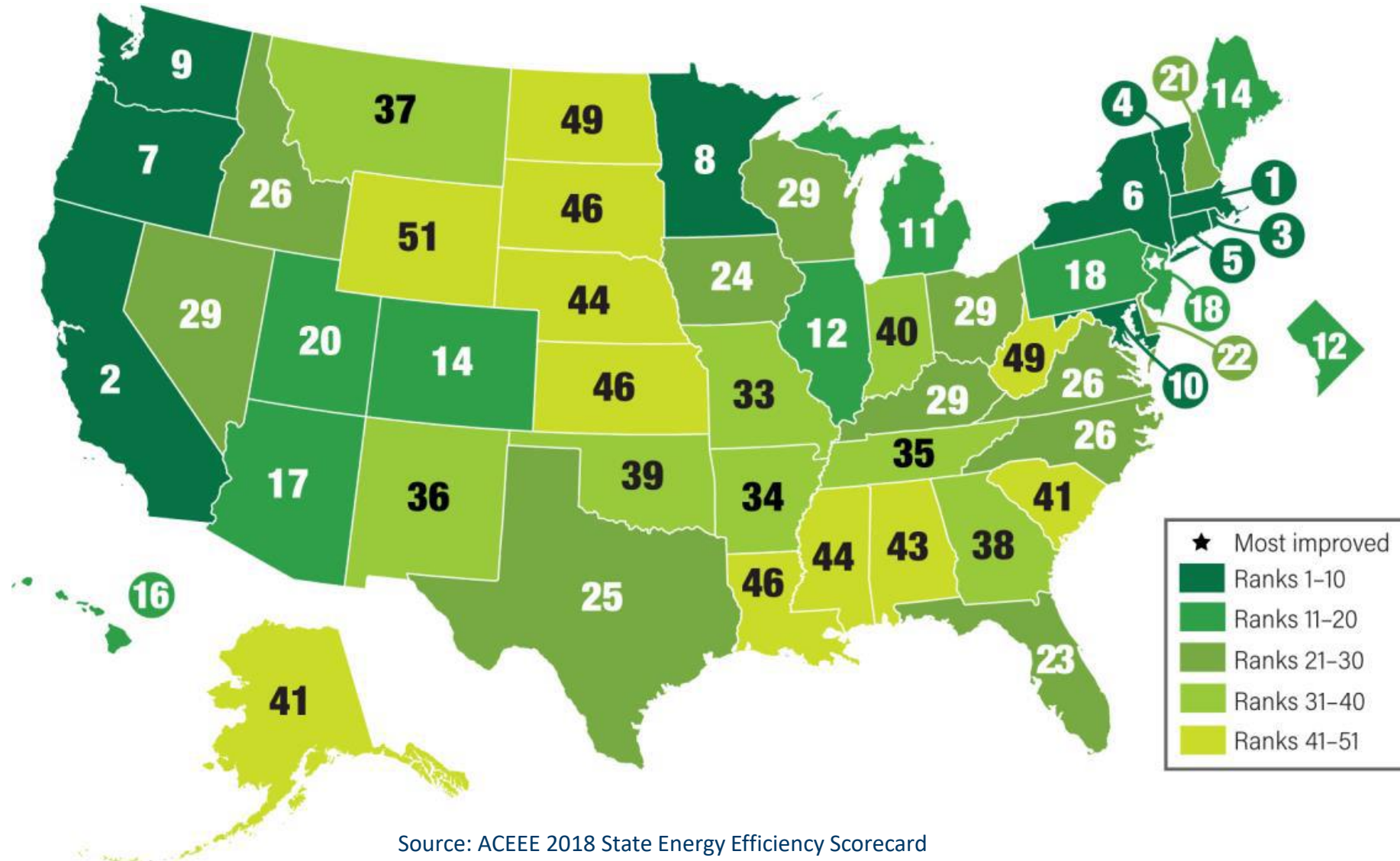




# Minnesota CIP Natural Gas Achievements



# MN: #8 in the Nation



Source: ACEEE 2018 State Energy Efficiency Scorecard

# CIP Achievements



**Since 2008, the Conservation Improvement Program has saved Minnesotans an estimated \$3.5 billion on their energy bills.**

# CIP Achievements



**The Conservation Improvement Program helps support and grow over 49,361 energy efficiency jobs in Minnesota.**



## 2018 State Assessed Property Fall Forum

### CIP Overview: Technical Assistance

Anthony Fryer | CIP Coordinator

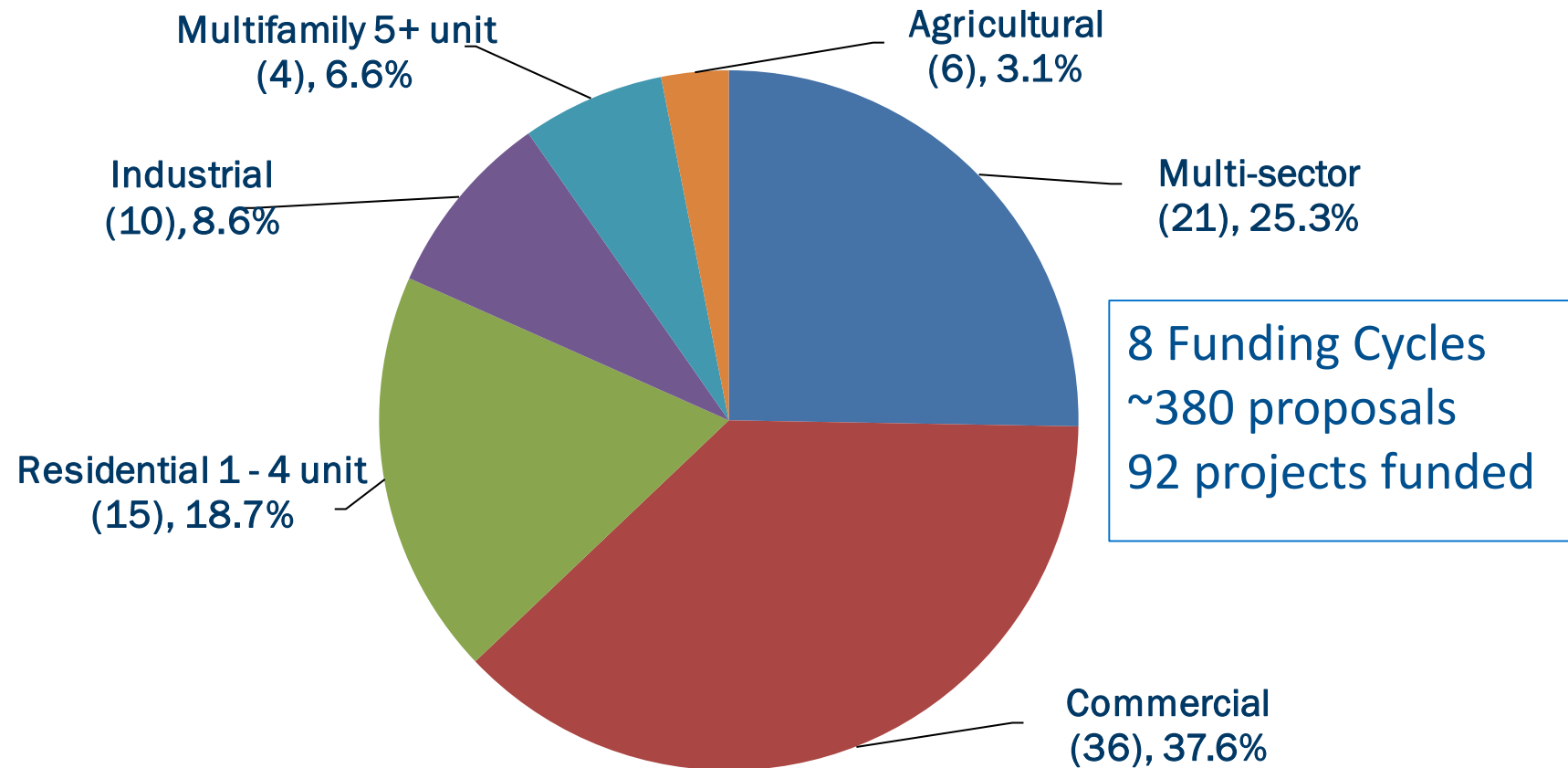
# Minnesota Technical Reference Manual (TRM)

- Set of Standard Calculation Methods and Inputs
  - Version 2.2 – Valid for January 1, 2019 through December 31, 2019
- Over 200 Energy Conservation Measures
- Calculate Savings Impact and Cost-Effectiveness
- Online Calculator for Measures – Energy Savings Platform

- Purpose to help Minnesota utilities achieve 1.5% energy savings goal by:
  - Identifying new technologies or strategies to maximize energy savings;
  - Improving effectiveness of energy conservation programs;
  - Documenting CO<sub>2</sub> reductions from energy conservation programs.

[-Minnesota Statutes §216B.241, Subd. 1e](#)

# CARD Spending by Sector thru mid-FY2017

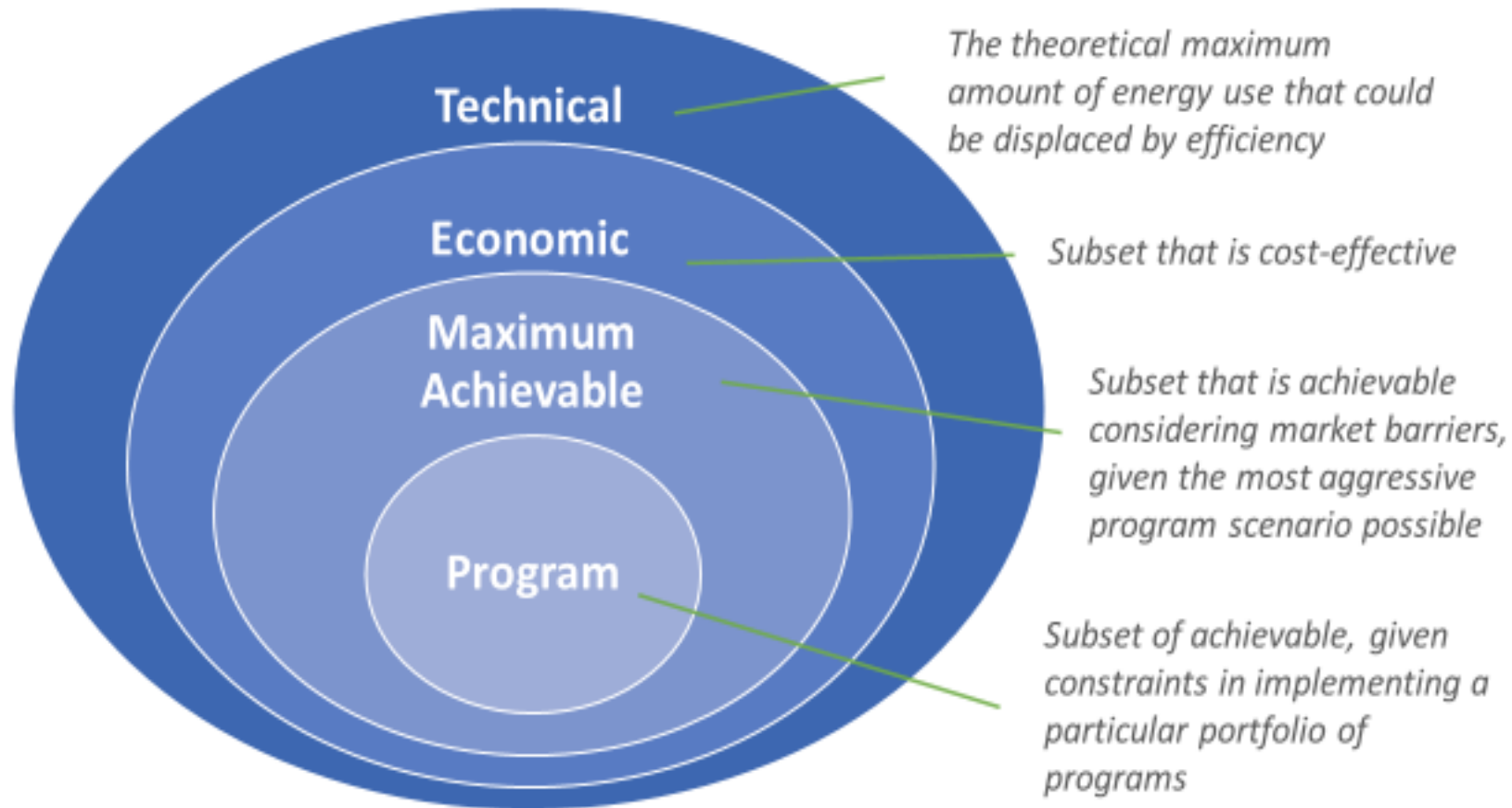




# Statewide Energy Efficiency Potential Study

1. Estimate statewide natural gas and electric energy efficiency and carbon saving potential in Minnesota for 2020 - 2029.
2. Produce actionable data resources for utilities regarding which market sectors, geographical areas, service territories, end uses, measures and programs should be targeted to help realize cost-effective energy efficiency potential.
3. Provide multiple opportunities for stakeholders to participate in the project to help advance robust energy policies and CIP programs in Minnesota.

# Statewide Energy Efficiency Potential Study



# Energy Savings Platform (ESP)



[Launch Reporting ESP ▶](#)

[Home](#)

[Energy Savings Platform](#)

[Smart Measures](#)

[States](#)

[MN](#)

[Our Story](#)

[Contact Us](#)

A banner image featuring a young girl with long brown hair, smiling and holding a colorful pinwheel against a bright blue sky with soft white clouds. The pinwheel is in motion, with its blades blurred.

**Save Energy + Save Money**  
**Energy Savings Platform**

**Energy Savings Platform (ESP™)**  
is a cloud-based IT platform built  
to help states and utilities **collaborate**  
to **manage** and **report** on energy  
efficiency programs.

# U.S. DOE State Energy Program Competitive Grant Award

A strategic stakeholder engagement process to provide information and facilitate discussion around electrification.

Topics to include:

1. Potential electrification technologies and end uses
2. Review of national/international electrification policies and frameworks
3. Intersection between CIP and electrification
4. Electrification savings metrics



# Thank You

## **Anthony Fryer**

Conservation Improvement Program Coordinator  
Minnesota Commerce Department  
[anthony.fryer@state.mn.us](mailto:anthony.fryer@state.mn.us) – 651.539.1858

# State Assessed Property Section Updates

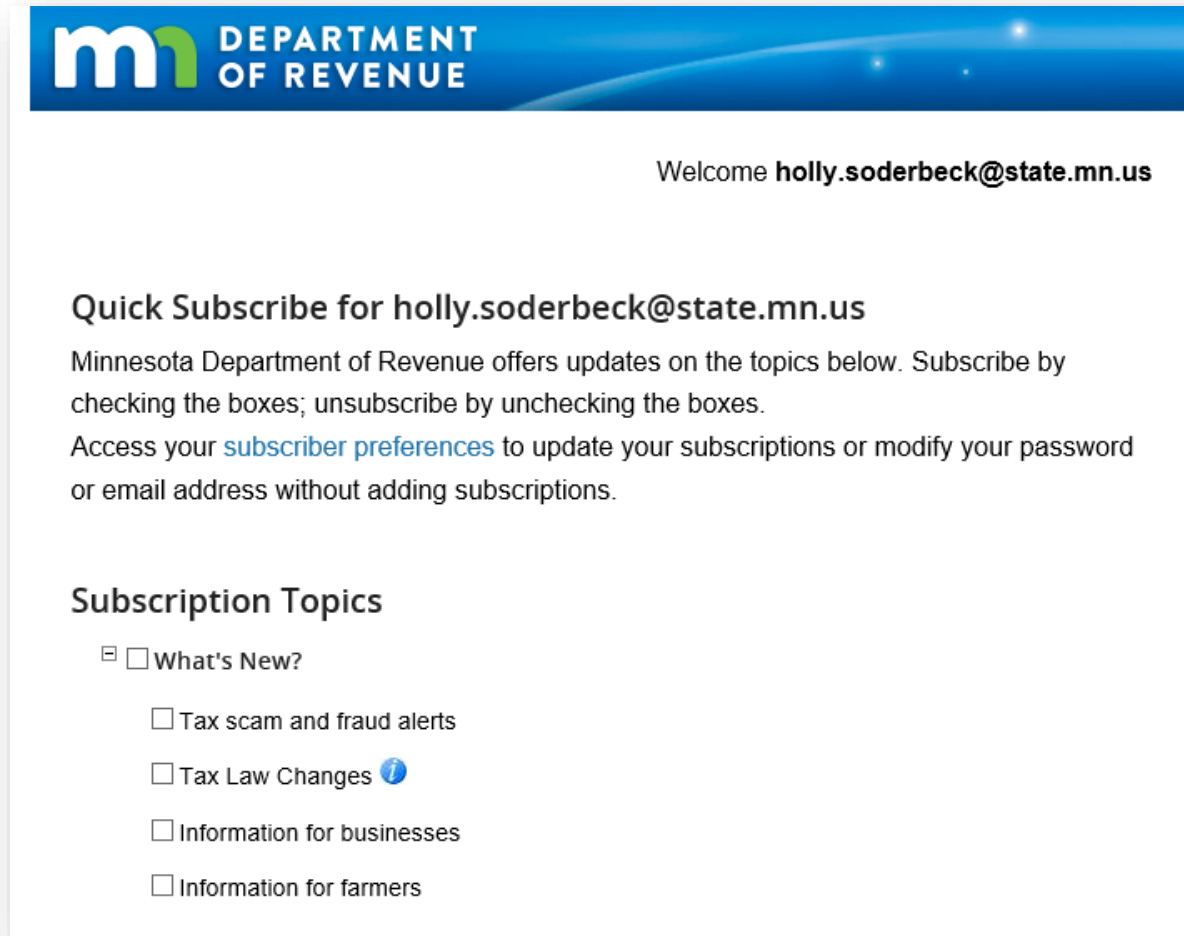
Holly Soderbeck, Revenue Tax Specialist

# State Assessed Property Section Updates

- Gov Delivery Email Updates
- Website
- Email
- Contributions in Aid of Construction
- Attachments and Appurtenances

# State Assessed Property Section Updates

- Gov Delivery Email Updates



The screenshot shows the Minnesota Department of Revenue's email subscription interface. At the top is a blue header with the 'mn' logo and 'DEPARTMENT OF REVENUE'. Below this, a welcome message reads 'Welcome holly.soderbeck@state.mn.us'. The main section is titled 'Quick Subscribe for holly.soderbeck@state.mn.us' and explains that users can subscribe to updates by checking boxes or unsubscribe by unchecking them. It also provides a link to 'subscriber preferences' for updating subscriptions, passwords, or email addresses. Under the 'Subscription Topics' heading, there is a list of topics with checkboxes: 'What's New?' (which is expanded to show sub-topics), 'Tax scam and fraud alerts', 'Tax Law Changes' (with an information icon), 'Information for businesses', and 'Information for farmers'.

**mn** DEPARTMENT OF REVENUE

Welcome **holly.soderbeck@state.mn.us**

**Quick Subscribe for holly.soderbeck@state.mn.us**

Minnesota Department of Revenue offers updates on the topics below. Subscribe by checking the boxes; unsubscribe by unchecking the boxes.

Access your [subscriber preferences](#) to update your subscriptions or modify your password or email address without adding subscriptions.

**Subscription Topics**

☒ ☐ What's New?

- ☐ Tax scam and fraud alerts
- ☐ Tax Law Changes [i](#)
- ☐ Information for businesses
- ☐ Information for farmers



# State Assessed Property Section Updates

- Website
  - Market values
  - Property type descriptions

# New Revenue website coming soon!

- Improved design and content
- Easier to navigate
- Preview (beta) coming January 2019



# State Assessed Property Section Updates

- Email
  - Authorization to Communicate through E-mail Transmission, REV187
  - Encrypted email

# State Assessed Property Section Updates

- Contributions in aid of construction

# State Assessed Property Section Updates

- Attachments and Appurtenances



Questions?

# Administrative Appeals Process Review

Jon Van Nurden | State Assessed Property Supervisor

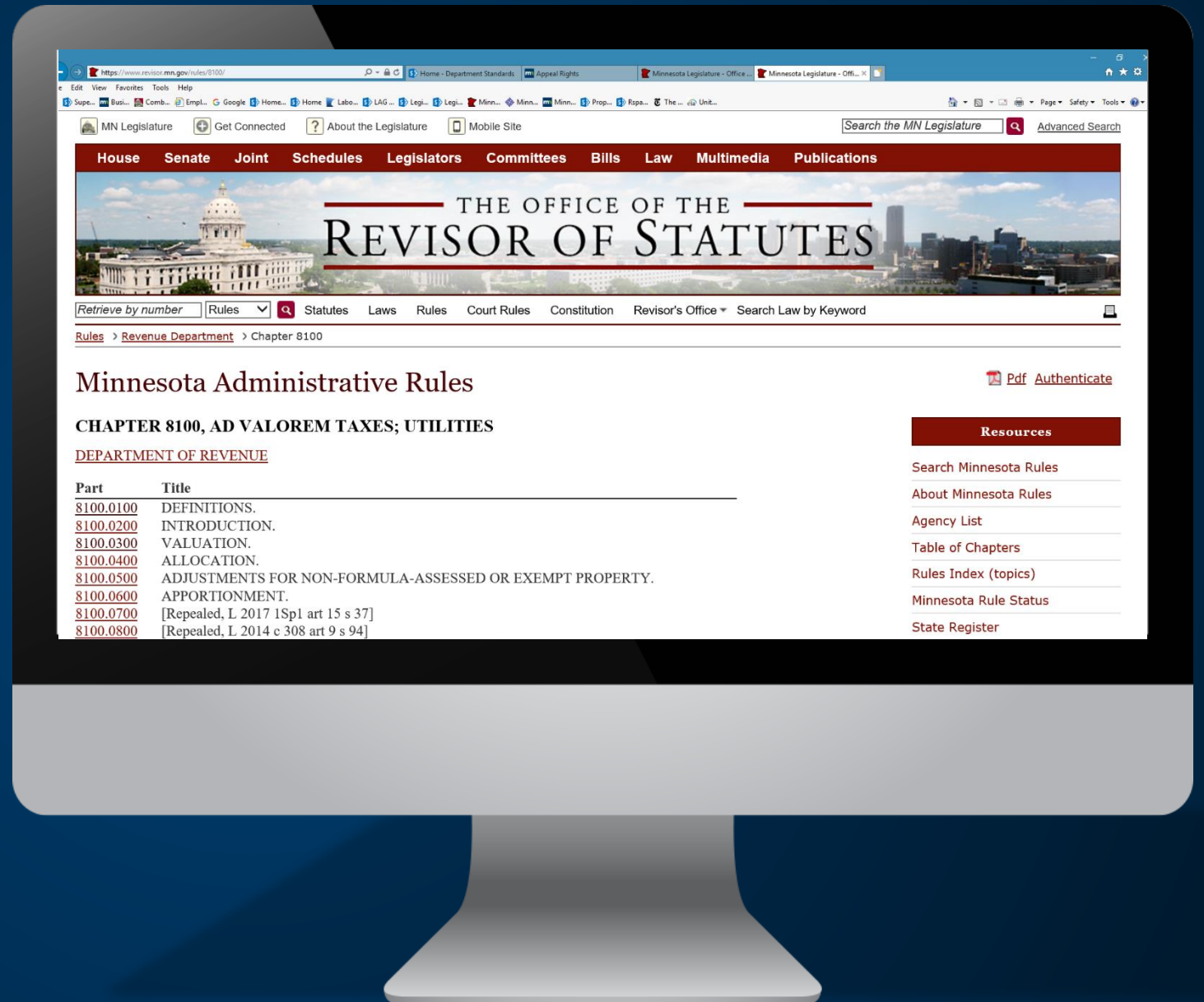
# Unitary Valuation – Stages of Value

1. System Value
2. Minnesota Allocated Value
3. Minnesota Apportionable Value
4. Parcel/Property Type Value
5. Equalized Value



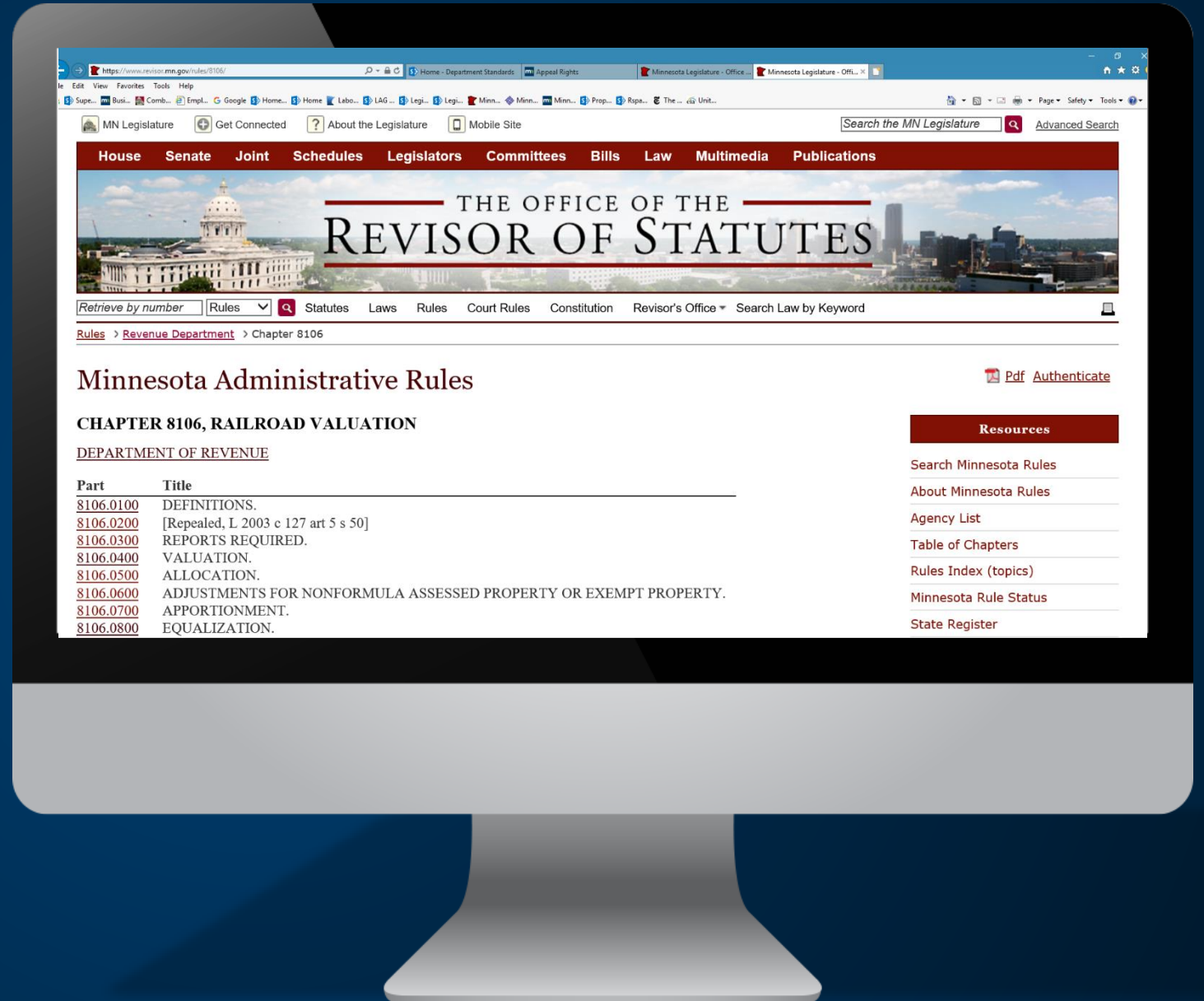
# Utility and Pipeline Valuation Rule

- Minnesota Rule 8100
  - Valuation
    - Unitary Valuation
    - Cost Less Depreciation



# Railroad Valuation Rule

- Minnesota Rule 8106



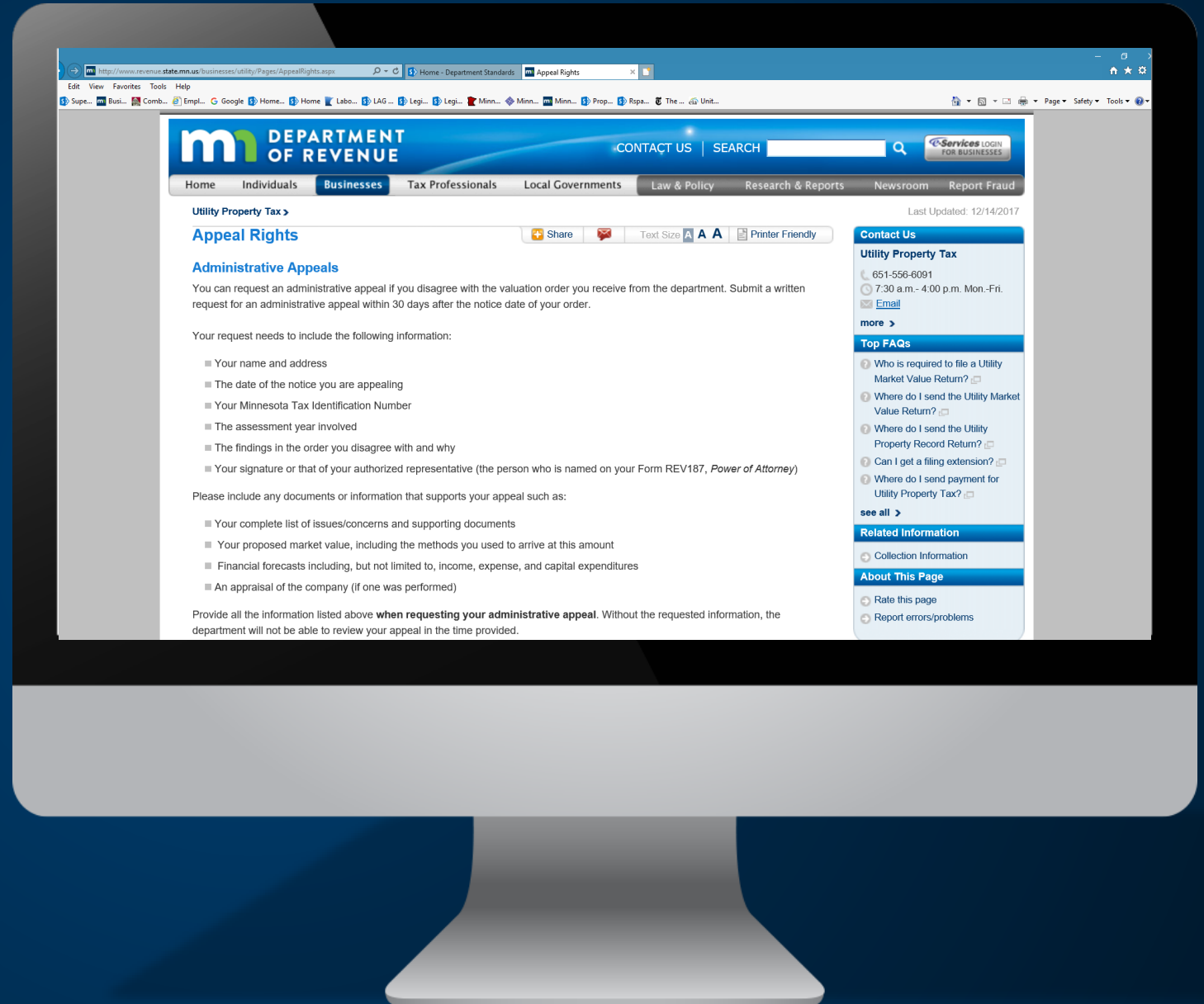
# Proceedings and Appeals; Utility or Railroad Valuation

- Minnesota Statute 273.372
- Appeal to Tax Court
  - Order of the Commissioner
  - Tax that results
- Appeal to Federal Court (under 4R Act)
- Administrative Appeal



# Appeal Rights

- Administrative Appeals
- Settlement Agreement
- Appeal Determination
- Tax Court Appeals

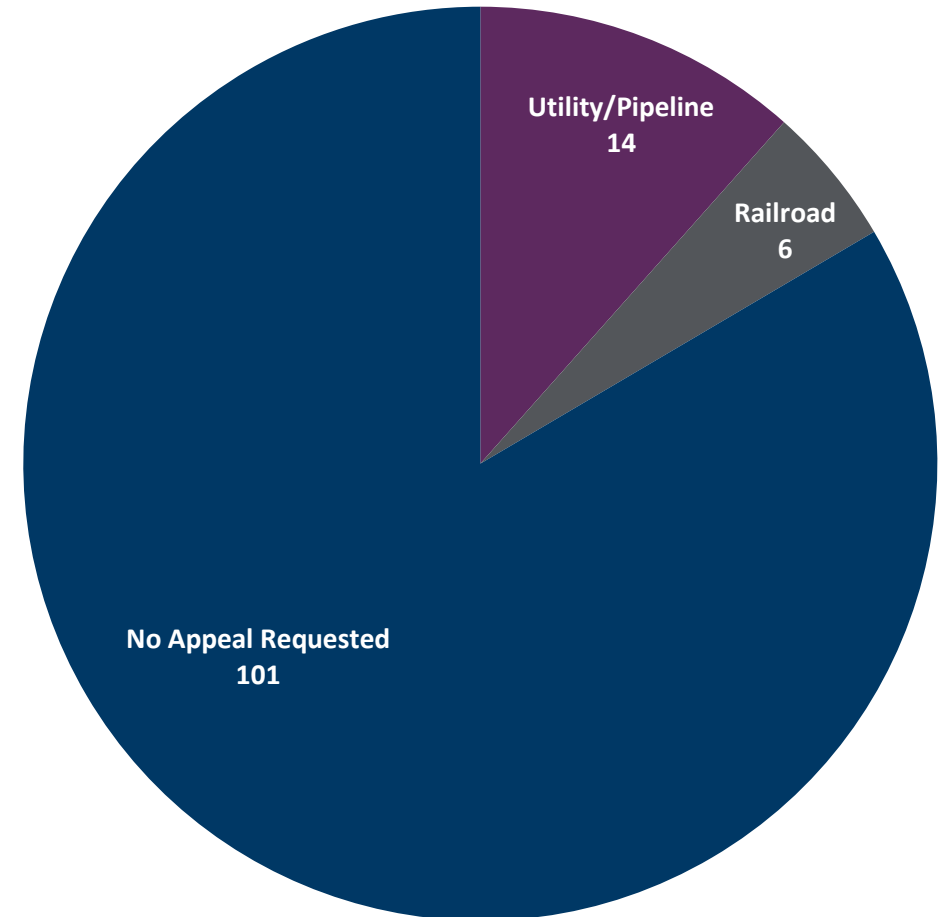


# New Administrative Appeal Process

- Company has 30 days to file an administrative appeal
  - 15 day extension may be granted
- Revenue reviews disputes and schedules an appeal conference
- Appeal Panel hears appeal within 20 days
  - Discussion of disputes at issue
  - May agree to Minnesota Apportionable Market Value
- If no agreement, determination issued within 30 days

# Administrative Appeal Results for 2018

- Historically, about 20% have filed administrative appeals
- 20 were filed in 2018
- 14 were resolved by agreement
- 6 received appeal determinations





Questions?

# Thank You!

**Jon Van Nurden**

*[jon.van.nurden@state.mn.us](mailto:jon.van.nurden@state.mn.us)*

651-556-6105



## Panel Discussion

## Panelists:

- Dana Anderson – Auditor/Treasurer's Office (Scott County)
- James Shanley – PRISM Team (Department of Revenue)
- Joy Kanne – Assessor's Office (Mower County)
- Paul Koepke – Company Representative (Northern States Power)
- Susan Roth – Recorder's Office (Ramsey County)

## Break Out Sessions

# Thank You!

**State Assessed Property Section**

*[sa.property@state.mn.us](mailto:sa.property@state.mn.us)*