

133 FERC ¶ 61,270  
FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, DC 20426

December 29, 2010

In Reply Refer To:  
Midwest Independent Transmission  
System Operator, Inc.  
Docket No. ER11-134-000

ALLETE, Inc.  
30 West Superior Street  
Duluth, MN 55802

Attention: Christopher D. Anderson, Esq.  
Attorney for ALLETE, Inc.

Reference: Transmission Incentives and Associated Tariff Modifications

Dear Mr. Anderson:

1. On October 18, 2010, ALLETE, Inc. (ALLETE) and Midwest Independent Transmission System Operator, Inc. (Midwest ISO) filed proposed revisions to ALLETE's rate formulas in Attachment O-ALLETE and Attachment GG-ALLETE of Midwest ISO's Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff)<sup>1</sup> to allow recovery of certain requested transmission rate incentives, pursuant to sections 205 and 219 of the Federal Power Act (FPA).<sup>2</sup> As discussed below, we grant ALLETE's request for transmission rate incentives, subject to certain prescribed accounting treatment. We also accept the proposed revisions to Attachment O-ALLETE and Attachment GG-ALLETE to become effective January 1, 2011, subject to certain accounting directives discussed below.

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<sup>1</sup> *Midwest Independent Transmission System Operator, Inc., Open Access Transmission, Energy and Operating Reserve Markets Tariff, FERC Electric Tariff, Fourth Revised Volume No. 1.*

<sup>2</sup> 16 U.S.C. §§ 824d and 824s (2006).

2. ALLETE and Midwest ISO propose changes to Attachment O-ALLETE and Attachment GG-ALLETE of Midwest ISO's Tariff to allow recovery of two incentive-based rate treatments, (1) inclusion of 100 percent of prudently incurred Construction Work in Progress (CWIP) in rate base, and (2) 100 percent recovery of the prudently incurred costs of transmission facilities that are cancelled or abandoned for reasons beyond the control of ALLETE, for two jointly-sponsored transmission projects associated with ALLETE's participation in the CapX2020 Transmission Capacity Expansion Initiative (the ALLETE CapX2020 Projects). The first of these projects, the Fargo Project, is a 250-mile, 345 kV transmission line between Fargo, North Dakota, and Monticello, Minnesota. The second of these projects, the Bemidji Project, is a 68-mile, 230 kV transmission line between Grand Rapids and Bemidji in northern Minnesota. With regard to both incentives, ALLETE contends that its request complies with Order No. 679<sup>3</sup> and Commission precedent.<sup>4</sup> ALLETE also maintains that the rates resulting from allowing the requested rate incentives are just and reasonable.

3. In order to meet the requirement that an applicant must propose accounting procedures ensuring that customers will not be charged for both capitalized Allowance for Funds Used During Construction (AFUDC) and amounts associated with CWIP in rate base,<sup>5</sup> ALLETE proposes to calculate AFUDC for both of the ALLETE CapX2020 Projects and book an offsetting regulatory liability (referred to as a "contra" entry) equaling 100 percent of each project's AFUDC and include that regulatory liability as a reduction to rate base in ALLETE's Attachment O transmission formula rate. ALLETE's Attachment O would include an entry for "Pre-funded AFUDC Regulatory Liability." After a project is placed in-service, the amount of the Pre-funded AFUDC Regulatory Liability will be amortized over the life of the project. ALLETE also proposes to revise footnotes A through D of Attachment GG-ALLETE to indicate that the CWIP amounts included in Attachment GG are subject to these "pre-funded" AFUDC accounting procedures. ALLETE further proposes to include a new line item in Attachment O-ALLETE rate base entitled "100% CWIP Recovery for Commission Approved Order No. 679 Transmission Projects." ALLETE proposes to satisfy the Commission's annual filing requirement through the annual filing of the FERC Form 730 report. In addition,

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<sup>3</sup> *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222, at P 354 (2006), *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236, *order on reh'g*, 119 FERC ¶ 61,062 (2007).

<sup>4</sup> The Commission has approved the same two incentives for other sponsors of the ALLETE CapX2020 Projects. *See Xcel Energy Serv., Inc.*, 121 FERC ¶ 61,284 (2007) (*Xcel*); *Otter Tail Power Co.*, 129 FERC ¶ 61,287 (2009) (*Otter Tail*); *Great River Energy*, 130 FERC ¶ 61,001 (2010) (*Great River Energy*).

<sup>5</sup> 18 C.F.R. § 35.25 (2010) (recovery of CWIP in rate base).

ALLETE states that it will develop and post on its Open Access Same-Time Information System (OASIS) workpapers showing the cost information and in-service date assumptions regarding the transmission projects and CWIP amounts to be included in its estimates for each year.

4. Notice of ALLETE's October 18, 2010 filing was published in the *Federal Register*, 75 Fed. Reg. 65,621 (2010), with interventions and comments due on or before November 8, 2010. Timely motions to intervene were filed by Consumers Energy Company and Xcel Energy Services, Inc. Great River Energy filed an out-of-time motion to intervene.

5. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2010), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2010), the Commission will grant Great River Energy's late-filed motion to intervene given its interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

6. Consistent with our findings in *Xcel*, *Otter Tail*, and *Great River Energy*, we grant ALLETE's request for CWIP and abandoned plant incentives, subject to certain accounting directives discussed below. The Commission accepts the proposed revisions to the Attachment O-ALLETE and Attachment GG-ALLETE formula rate templates in order to allow ALLETE to recover the 100 percent CWIP recovery and abandoned plant recovery incentives.<sup>6</sup>

7. While ALLETE explains its rate mechanism to avoid double recovery, the filing does not provide the specific FERC accounts that ALLETE will use to initially record the Pre-funded AFUDC Regulatory Liability or the accounts to be used to amortize the amount recorded in that account once the project is in service. Therefore, we direct ALLETE to record the Pre-funded AFUDC Regulatory Liability by debiting Account 407.3, Regulatory Debits, and crediting Account 254, Other Regulatory Liabilities, in

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<sup>6</sup> We previously found that the Fargo-Monticello and Grand Rapids-Bemidji projects are not routine and the requested incentives of CWIP and abandoned plant are designed to meet a distinct set of risks associated with the projects. *Xcel*, 121 FERC ¶ 61,284 at P 58-59, 63; *Otter Tail*, 129 FERC ¶ 61,287 at P 31, 33; *Great River Energy*, 130 FERC ¶ 61,001 at P 33, 35. We also found that the total package of incentives is tailored to the risks faced by the utility. *Great River Energy*, 130 FERC ¶ 61,001 at P 39; *Otter Tail*, 129 FERC ¶ 61,287 at P 35-36.

accordance with the instructions of those accounts.<sup>7</sup> In addition, ALLETE is directed to amortize the Pre-funded AFUDC Regulatory Liability as an offset to depreciation expense by debiting Account 254 and crediting Account 407.4, Regulatory Credits. ALLETE must also maintain all necessary controls to ensure the amount of the Pre-funded AFUDC Regulatory Liability recorded in Account 254 includes the total amount of AFUDC accrued on the ALLETE CapX2020 Projects. ALLETE's accounting for the Pre-funded AFUDC Regulatory Liability and Attachment O adjustments to appropriately include CWIP in rate base may be subject to scrutiny through Commission audit or rate review.

8. Finally, we will accept ALLETE's proposal to file a FERC Form 730 report to satisfy the filing requirements for inclusion of CWIP in rate base. We will also accept ALLETE's proposal to develop and post on OASIS, as part of the annual customer notification and information procedures, work papers that show the cost information and in-service date assumptions regarding the transmission projects and estimated CWIP amounts to be included in its formula rate for each year.

By direction of the Commission.

Nathaniel J. Davis, Sr.,  
Deputy Secretary.

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<sup>7</sup> See, e.g., *American Transmission Co.*, 105 FERC ¶ 61,388 (2003), *order on reh'g*, 107 FERC ¶ 61,117 (2004); *Trans-Allegheny Interstate Line Co.*, 119 FERC ¶ 61,219 (2007), *order on reh'g*, 121 FERC ¶61,009 (2007).