

153 FERC ¶ 61,296
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Cheryl A. LaFleur, Tony Clark,
and Colette D. Honorable.

Midcontinent Independent System Operator, Inc. and Docket No. ER16-118-000
ALLETE, Inc.

ORDER ON TRANSMISSION RATE INCENTIVES

(Issued December 17, 2015)

1. On October 19, 2015, pursuant to sections 205 and 219 of the Federal Power Act (FPA)¹ and Part 35 of the Commission's regulations,² ALLETE, Inc. (ALLETE) filed a request for certain transmission incentive rate treatments for ALLETE to facilitate construction of the Great Northern Transmission Line (Great Northern Project) (ALLETE Filing). ALLETE requests that the Commission grant its request for the following incentive rate treatments pursuant to Order No. 679:³ (1) authorization to recover 100 percent of construction work in progress (CWIP), and (2) authorization to recover 100 percent of prudently incurred costs if the project is abandoned or cancelled due to factors beyond ALLETE's control (Abandoned Plant Recovery). ALLETE and Midcontinent Independent System Operator, Inc. (MISO) also request authorization to amend ALLETE's Attachment O to the MISO Open Access Transmission, Energy and

¹ 16 U.S.C. §§ 824s, 824d (2012).

² 18 C.F.R. pt. 35 (2015).

³ *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222 (2006), *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236, *order on reh'g*, 119 FERC ¶ 61,062 (2007). The Commission provided additional guidance regarding the application of its transmission incentive policies in *Promoting Transmission Investment Through Pricing Reform*, 141 FERC ¶ 61,129 (2012) (2012 Incentives Policy Statement).

Operating Reserve Markets Tariff (Tariff) to implement the requested incentives.⁴ ALLETE requests an effective date of January 1, 2016. As discussed below, we grant ALLETE's requested incentive rate treatments subject to condition. We also accept ALLETE's revised Attachment O – ALLETE, effective January 1, 2016, as requested.

I. Background

A. Description of ALLETE

2. ALLETE states that it is an energy services company headquartered in Duluth, Minnesota. ALLETE provides power through its operating division, Minnesota Power. Minnesota Power generates, transmits, and distributes electricity in a 26,000-square-mile region of northern Minnesota, serving 143,000 retail customers and 16 municipalities. Minnesota Power has approximately 2,500 MW of generation capacity through its facilities and power purchases, including approximately 500 MW of wind generation. Through Minnesota Power, ALLETE owns and operates numerous electric transmission lines, distribution lines, substations, and has transferred functional control of its alternating-current transmission facilities to MISO. Minnesota Power also purchases both energy and capacity in the open market, primarily through ALLETE's membership in MISO. In its capacity as a MISO transmission owner, ALLETE recovers its annual transmission revenue requirement under Attachment O of the MISO Tariff.

B. Description of the Great Northern Transmission Line

3. The Great Northern Project is a proposed 500 kilovolt (kV) transmission line expected to extend approximately 220 miles from a point on the Minnesota/Manitoba (Canada) border northwest of Roseau, Minnesota to ALLETE's existing Blackberry Substation near Grand Rapids, Minnesota.⁵ The Great Northern Project is planned both to allow for the exchange of wind energy for hydropower from Manitoba, and to ensure the reliability of power transmission across the Manitoba-United States border. Through two sets of innovative hydro-and-wind power supply and exchange agreements, ALLETE plans to send excess, unused wind power during high wind conditions over the Great

⁴ ALLETE Filing at 1. ALLETE states that MISO joins this filing as the administrator of the MISO Tariff, but MISO takes no position on the substance of the filing.

⁵ The Great Northern Project also includes: (i) the development of a new midline series capacitor bank station located near Warroad, Minnesota, as well as a new substation located on the same site as the existing Blackberry Substation; and (ii) local transmission system modifications necessary to accommodate the placement and interconnection of the new substation.

Northern Project to the major electric utility in the Manitoba province (Manitoba Hydro). During low wind conditions, Manitoba Hydro will send excess hydropower to ALLETE. Furthermore, ALLETE states that the Great Northern Project will reduce congestion and improve stability between Manitoba and the United States.⁶ Finally, ALLETE states that MISO approved the Great Northern Project in the 2014 MISO Transmission Expansion Planning (MTEP) process as a Transmission Delivery Service Project.

4. ALLETE states that the estimated total cost of the Great Northern Project is \$558-\$710 million.⁷ ALLETE states that its expected ownership share in the Great Northern Project is 51 percent, though its costs will only be 46 percent of the project cost—\$158-\$201 million.⁸ Manitoba Hydro is responsible for the remaining costs and ownership shares.⁹ ALLETE plans to use both internal and external financing sources to fund its investment in the Great Northern Project.

5. In accordance with Order No. 679, ALLETE submitted a technology statement that describes the advanced technologies considered for the transmission project.¹⁰ ALLETE states that the Great Northern Project will take advantage of several technologies that are considered “advanced transmission technologies” under Section 1223 of the Energy Policy Act of 2005, which defines advanced transmission technology as “technology that increases the capacity, efficiency, or reliability of an existing or new transmission facility.”¹¹ ALLETE states that the Great Northern Project will make use of

⁶ Currently, the Manitoba-US transmission interface consists of three 230 kV lines and one 500 kV line. According to ALLETE, the Great Northern Project will provide redundancy to the existing 500 kV transmission line in the event of system tripping or unplanned outages and improve the performance of the transmission system in such cases. Further, ALLETE states that the Great Northern Project will provide the necessary infrastructure to promote a reliable and flexible approach to dispatch wind and reduce congestion in the Upper Midwest, while serving load obligations. ALLETE Filing at 9 (citing Ex. ATE-2 at 9, 19).

⁷ *Id.* (citing Ex. ATE-1 at 15).

⁸ *Id.* at 11 (citing Ex. ATE-7 at 6).

⁹ The Commission approved the cost allocation pursuant to a Facilities Construction Agreement accepted in *Midcontinent Independent Sys. Operator, Inc.*, 149 FERC ¶ 61,161 (2014).

¹⁰ *See* Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 302.

¹¹ ALLETE Filing at 17 (citing 42 U.S.C. § 16422 (2012)).

several advanced technologies, including microprocessor based protective relays; synchrophasor technology; digital fault recorders; Programmable Logic Controller based control and annunciation for substations; fiber-optic based communication; extra-high voltage series capacitor banks; shunt reactor banks; shunt capacitor banks designed to improve the capacity and efficiency of the line; “smart” breakers capable of point-on-wave switching; and a triple-bundled conductor designed to improve the efficiency of the line.¹²

C. Request for Incentives

6. ALLETE states that it requests the following incentive rate treatments under Order No. 679: (1) authorization to recover 100 percent of CWIP, and (2) authorization for Abandoned Plant Recovery. ALLETE states that it is only seeking risk-reducing incentives and is not seeking any return on equity incentive at this time.¹³

D. Request for Waivers

7. ALLETE states that to the extent this filing requires waiver of section 35.13, ALLETE requests such waivers including the requirements of sections 35.13(c), (d), (e), and (h) of the Commission’s regulations.¹⁴ ALLETE also requests waiver of all parts of section 35.13(b)(7), except for the attestation which ALLETE has included.¹⁵ ALLETE also requests waiver of any requirements of the Commission’s rules and regulations, as well as any authorization as may be necessary or required, to permit ALLETE’s proposed tariff revisions to be accepted by the Commission and made effective in the manner proposed. ALLETE states that, since it is proposing changes to the implementation of its formula rates rather than requesting a change to or increase in a stated rate, and ALLETE is not subject to the general rate regulations of the Commission, any necessary waiver of these provisions is appropriate and should be granted.

8. ALLETE also requests waiver of the service requirements set forth in Rule 2010 of the Commission’s Rules of Practice and Procedure,¹⁶ to the extent such waiver is deemed necessary.

¹² *Id.*

¹³ *Id.* at 2.

¹⁴ 18 C.F.R. §§ 35.13(c), (d), (e) and (h) (2015).

¹⁵ *See* Ex. ATE-14.

¹⁶ 18 C.F.R. § 385.2010 (2015).

II. Notice of Filing and Responsive Pleadings

9. Notice of ALLETE's filing was published in the *Federal Register*, 80 Fed. Reg. 64,406 (2015), with interventions and protests due on or before November 9, 2015. None was filed.

III. Discussion

A. Requests for Incentives

1. Section 219 Requirement

10. In the Energy Policy Act of 2005,¹⁷ Congress added section 219 to the FPA, directing the Commission to establish, by rule, incentive-based rate treatments to promote capital investment in electric transmission infrastructure. The Commission subsequently issued Order No. 679, which sets forth processes by which a public utility may seek transmission rate incentives pursuant to section 219, including the incentives requested here by ALLETE. Additionally, in November 2012, the Commission issued a Policy Statement providing additional guidance regarding its evaluation of applications for transmission rate incentives under section 219 and Order No. 679.¹⁸

11. Pursuant to Order No. 679, an applicant may seek to obtain incentive rate treatment for transmission infrastructure investment that satisfies the requirements of section 219, i.e., the applicant must show that "the facilities for which it seeks incentives either ensure reliability or reduce the cost of delivered power by reducing transmission congestion."¹⁹ Order No. 679 established a process for an applicant to follow to demonstrate that it meets this standard, including a rebuttable presumption that the standard is met if (1) the transmission project results from a fair and open regional planning process that considers and evaluates projects for reliability or congestion and is found to be acceptable to the Commission, or (2) a project has received construction approval from an appropriate state commission or state siting authority.²⁰ In Order No. 679-A, the Commission clarified the operation of this rebuttable presumption by noting that the authorities or processes on which it is based (i.e., a regional planning

¹⁷ Pub. L. No. 109-58, § 1241, 119 Stat. 594 (2005).

¹⁸ See 2012 Incentives Policy Statement, *supra* note 3.

¹⁹ Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 76.

²⁰ *Id.*

process, a state commission, or siting authority) must, in fact, consider whether the project ensures reliability or reduces the cost of delivered power by reducing congestion.²¹

12. ALLETE argues that the Great Northern Project qualifies for the rebuttable presumption under section 219 because the project was approved in the MTEP Regional Planning Process. ALLETE notes that the Great Northern Project obtained the MISO Board of Directors' approval in the 2014 MTEP Appendix A as a Transmission Delivery Service Project.²² ALLETE asserts that the MTEP process meets the Commission criteria for applying the rebuttable presumption where a transmission project results from "an open and transparent regional transmission planning process that evaluates projects for ensuring reliability and/or reducing congestion and, therefore, satisfies Order No. 679's rebuttable presumption."²³

13. ALLETE contends that the Great Northern Project also qualifies for the rebuttable presumption because the Minnesota Public Utilities Commission (Minnesota Commission) approved ALLETE's application for a Certificate of Need. ALLETE states that, as part of the Certificate of Need process, the Minnesota Commission considers ten factors, including reliability and congestion relief.²⁴ ALLETE states that the Commission has previously found that the Minnesota Commission Certificate of Need process satisfies the rebuttable presumption.²⁵

14. The Commission has previously found that projects approved through a planning process that evaluated whether identified transmission projects will enhance reliability and/or reduce congestion are entitled to the rebuttable presumption established under Order No. 679.²⁶ In this case, the Great Northern Project received approval through the

²¹ Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 49.

²² Ex. ATE-2 at 5-6.

²³ ALLETE Filing at 8 (citing *Otter Tail Power Co.*, 137 FERC ¶ 61,255, at P 3 (2011)).

²⁴ *Id.*

²⁵ *Id.* at 9 (citing *Mo. River Services*, 138 FERC ¶ 61,045, at PP 12-14 (2012)).

²⁶ See, e.g., *TransCanyon DCR, LLC*, 152 FERC ¶ 61,017, at P 17 (2015); *Pacific Gas & Elec. Co.*, 148 FERC ¶ 61,195, at P 14 (2014); *Midcontinent Independent Sys. Operator, Inc.*, 151 FERC ¶ 61,246, at P 15 (2015); *Southern Indiana Gas & Elec. Co.*, 125 FERC ¶ 61,124, at P 28 (2008)).

MTEP process and the MISO Board of Directors approved the Great Northern Project in the 2014 MTEP Appendix A as a Transmission Delivery Service Project. Therefore, we find that the Great Northern Project is entitled to the rebuttable presumption that it meets the section 219 requirement.

2. Nexus Requirement

15. In addition to satisfying the section 219 requirement of ensuring reliability or reducing the cost of delivered power by reducing congestion, Order No. 679 requires an applicant to demonstrate that there is a nexus between the incentive sought and the investment being made. In Order No. 679-A, the Commission clarified that the nexus test is met when an applicant demonstrates that the total package of incentives requested is “tailored to address the demonstrable risks or challenges faced by the applicant.”²⁷ Applicants must provide sufficient support to allow the Commission to evaluate each element of the package and the interrelationship of all elements of the package.²⁸ The Commission noted that this nexus test is fact-specific and requires the Commission to review each application on a case-by-case basis. The Commission has, in prior cases, approved multiple rate incentives for particular projects where appropriate.²⁹ This is consistent with Order No. 679 and our interpretation of section 219 authorizing the Commission to approve more than one incentive rate treatment for an applicant proposing a new transmission project, as long as each incentive is justified by a showing that it satisfies the requirements of section 219 and that there is a nexus between the incentives proposed and the investment made.³⁰

a. 100 Percent CWIP Recovery

i. ALLETE Proposal

16. ALLETE seeks to include 100 percent CWIP recovery through inclusion in its wholesale transmission rate base. ALLETE states that its request for 100 percent CWIP

²⁷ Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 40.

²⁸ 2012 Incentives Policy Statement, 141 FERC ¶ 61,129 at P 10 (quoting Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 40).

²⁹ See, e.g., *Central Minnesota Mun. Power Agency*, 134 FERC ¶ 61,115, at P 34 (2011) (finding that inclusion of 100 percent of construction work in progress in rate base, abandoned plant recovery, and use of a hypothetical capital structure were tailored to the unique challenges faced by the applicant).

³⁰ Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 55.

recovery addresses the financial risks and challenges presented by the Great Northern Project.³¹ In order to fund its investment in the Great Northern Project, ALLETE states that it will require significant cash flow to cover development costs. ALLETE expects that 100 percent CWIP recovery will provide it with steady cash flow during Great Northern Project construction, allowing ALLETE to maintain its construction schedule, protect its financial metrics, and relieve downward pressure on its credit rating.³² ALLETE states that this will allow it to compete for investors to finance the Great Northern Project.

17. ALLETE states that granting 100 percent CWIP recovery to ALLETE for the Great Northern Project will benefit ALLETE's customers by potentially lowering the cost of capital and eliminating "rate shock," which ALLETE states will result in customers paying \$156 million less on a nominal basis over the life of the Great Northern Project when compared to what they would pay under the traditional mechanism of Allowance for Funds Used During Construction (AFUDC).³³ ALLETE also explains that its request for 100 percent CWIP recovery and Abandoned Plant Recovery is consistent with Commission precedent and the 2012 Incentives Policy Statement.³⁴

18. ALLETE proposes to use a two-step accounting methodology to ensure that ALLETE does not double recover on AFUDC and CWIP on a project once it is included in rate base. In order to meet the requirement that an applicant must propose accounting procedures ensuring that customers will not be charged for both capitalized AFUDC and amounts associated with CWIP in rate base,³⁵ ALLETE proposes to calculate AFUDC for the Great Northern Project 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

³¹ ALLETE Filing at 11.

³² *Id.* at 12 (citing *PJM Interconnection, L.L.C.*, 147 FERC ¶ 61,157, at P 24 (2014) (finding that 100 percent CWIP recovery will provide the project sponsor with steady cash flow during the construction period, protect its financial metrics, relieve downward pressure on its credit rating, and insulate customers from rate shock)).

³³ *Id.*

³⁴ *Id.* at 7 (citing *Xcel Energy Servs. Inc.*, 121 FERC ¶ 61,284 (2007); *Otter Tail Power Co.*, 129 FERC ¶ 61,287 (2009); *ALLETE, Inc.*, 133 FERC ¶ 61,270 (2010); *Great River Energy*, 130 FERC ¶ 61,001 (2010) (*Great River*); 2012 Incentives Policy Statement, 141 FERC ¶ 61,129 at PP 11-16)).

³⁵ 18 C.F.R. § 35.25 (2015) (recovery of CWIP in rate base).

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.³⁶ ALLETE further proposes to add two new line items in the Attachment O-ALLETE to account for pre-funded AFUDC, as described above.³⁷

19. ALLETE provides the specific FERC accounts that it will use to initially record the Pre-funded AFUDC Regulatory Liability and accounts to be used to amortize the amount recorded in that account once the project is in service. ALLETE represents that when CWIP recovery is allowed, then the Pre-Funded AFUDC Regulatory Liability is recorded by debiting Account No. 407.3, Regulatory Debits, and crediting Account No. 254, Other Regulatory Liabilities, for 100 percent of the AFUDC in CWIP.³⁸ In addition, ALLETE proposes 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. Finally, ALLETE explains that it will maintain all the necessary controls to ensure the amount of Pre-Funded AFUDC Regulatory Liability recorded in Account 254 includes the total amount of AFUDC accrued on the Great Northern Project.

20. ALLETE states that, consistent with section 35.13(h)(38) of the Commission's regulations, it has provided Statement BM to describe its program for providing reliable and economic power and, among other things, why the program "is consistent with a least-cost energy supply program."³⁹ ALLETE states that its Statement BM describes the Great Northern Project and explains that Minnesota law expressly requires a party seeking a Certificate of Need for a transmission project to demonstrate whether, among other things, the project would be prudent and consistent with a least-cost energy supply program.⁴⁰

21. To comply with the requirement that an applicant seeking CWIP recovery in rate formulas make an annual filing with the Commission, ALLETE states that it will annually file the FERC Form No. 730 report.⁴¹ In addition, as part of the annual customer notification and information procedures, ALLETE states that it will develop

³⁶ Testimony of Steven W. Morris, Ex. ATE-9 at 3.

³⁷ Testimony of Kara Henderson, Ex. ATE-10 at 6.

³⁸ Testimony of Steven W. Morris, Ex. ATE-9 at 5.

³⁹ 18 C.F.R. § 35.12(h)(38)(2015).

⁴⁰ Statement BM, Ex. ATE-3.

⁴¹ ALLETE Filing at 17.

and post on OASIS work papers that show the cost information and in-service date assumptions regarding the transmission projects and CWIP amounts to be included in its estimates for each year.⁴²

ii. Commission Determination

22. We grant ALLETE's request for 100 percent CWIP recovery subject to condition, as discussed below.⁴³ In Order No. 679, the Commission established a policy that allows utilities to include, where appropriate, 100 percent of prudently incurred, transmission-related CWIP in their rate base.⁴⁴ The Commission stated that this rate treatment will further the goals of section 219 of the FPA by providing up-front regulatory certainty, rate stability, and improved cash flow, reducing the pressures on an applicant's finances caused by investing in transmission projects.⁴⁵ We find that ALLETE has demonstrated, consistent with Order No. 679, a nexus between the proposed CWIP incentive and its investment in the Great Northern Project. The Great Northern Project is expected to cost ALLETE between \$158 and \$201 million and is not expected to go into service until 2020. Including 100 percent CWIP recovery in the rate base will provide ALLETE with steady cash flow during the construction period, protecting ALLETE's financial metrics and relieving downward pressure on its credit rating. Furthermore, as the Commission has previously determined, the 100 percent CWIP incentive will help insulate ALLETE's customers from rate shock that might otherwise accompany the use of AFUDC.⁴⁶

23. Further, we find that ALLETE's proposed accounting and tracking procedures, described in Exs. ATE-9 and ATE-10, are sufficient to ensure that customers will not be

⁴² *Id.*

⁴³ The Commission can revise a proposal filed under section 205 of the Federal Power Act as long as the filing utility accepts the change. *See City of Winnfield v. FERC*, 744 F.2d 871, 875-77 (D.C. Cir. 1984). The filing utility is free to indicate that it is unwilling to accede to the Commission's conditions by withdrawing its filing.

⁴⁴ Order No. 679, FERC Stats. & Regs. ¶ 31,222 at PP 29, 117.

⁴⁵ *Id.* P 115.

⁴⁶ *See, e.g., PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,229, at P 78 (2011) (finding that the CWIP incentive would benefit customers by eliminating rate shock because the project's rate impact would be spread over the entire construction period); *PPL Electric Utilities Corp.*, 123 FERC ¶ 61,068, at P 43 (2008); *American Electric Power Service Corp.*, 116 FERC ¶ 61,059, at PP 59-60 (2006), *order on reh'g.*, 118 FERC ¶ 61,041, at P 27 (2007).

charged for both capitalized AFUDC and corresponding amounts of CWIP recovery included in rate base.

24. We note that ALLETE must also have sufficient accounting controls and procedures to ensure that unpaid accruals properly recorded in the Great Northern Project work orders are excluded from transmission rate base. A public utility may accrue AFUDC on eligible construction expenditures properly recorded in Account 107, Construction Work in Progress--Electric, or include such amounts in the rate base when authorized by the Commission. This practice compensates a public utility for its out-of-pocket costs. However, it would be inappropriate to accrue AFUDC or include in it in rate base and earn a return on amounts charged to Account 107 that have not been paid. Therefore, we grant ALLETE's proposal to recover 100 percent CWIP subject to condition. ALLETE should submit a compliance filing within 30 days of the date of this order which details the accounting procedures and controls it will use to identify and remove unpaid accruals from rate base, and update its notes and disclosures in Attachment O to disclose that unpaid accruals are being used to reduce CWIP balances included in the rate base. 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.

25. The Commission has previously accepted a utility's proposal that the FERC Form No. 730 report would satisfy the Commission's requirement for an annual filing for CWIP recovery through a rate formula.⁴⁷ Accordingly, we accept ALLETE's proposal to use its FERC Form No. 730 report to satisfy the filing requirements for CWIP recovery through its rate formula. We also accept ALLETE's proposal to develop and post on OASIS work papers that show the cost information and in-service date assumptions regarding the transmission projects and CWIP amounts to be included in its estimates for each year.

b. Abandoned Plant Recovery

i. ALLETE Proposal

26. ALLETE states that its request for the Abandoned Plant Recovery incentive is narrowly tailored to mitigate the physical (siting and construction) risks and challenges posed by the Great Northern Project. ALLETE argues that the Great Northern Project presents substantial physical risks and challenges because it is a large new cross-border transmission project that requires dozens of federal and state permits and local coordination. ALLETE also states that the Great Northern Project has received opposition from affected landowners, which presents a risk of delaying the regulatory

⁴⁷ *The United Illuminating Co.*, 119 FERC ¶ 61,182, at P 92 (2007).

approval process that is underway. ALLETE states that a preliminary review and consultation with state and federal agencies in the ongoing proceedings before the Minnesota Commission and the U.S Department of Energy revealed that the originally proposed border crossing was not feasible, requiring ALLETE to propose a new border crossing. ALLETE argues that it may face similar siting challenges as these proceedings progress.⁴⁸

27. Additionally, ALLETE states that it has not yet secured right-of-way easements and will not until a final route permit is issued by the Minnesota Commission. ALLETE argues that the lack of land rights may lead to construction delays and changes in construction plans. ALLETE also states that additional risks exist because it will be a tenant-in-common owner with a Manitoba Hydro subsidiary which does not plan to be a tenant-in-common owner beyond mid-year 2016.⁴⁹ Given the uncertainty around the future ownership structure, ALLETE states that there is a risk that the Manitoba Hydro subsidiary (or another sponsor) may face financial hurdles that force it to withdraw from the Great Northern Project or delay construction, which may cause ALLETE, the Manitoba Hydro subsidiary, or another sponsor to change or cancel their participation in the Great Northern Project. ALLETE argues that, for the above reasons, granting the Abandoned Plant Recovery incentive will mitigate the risk associated with ALLETE being forced to abandon the Great Northern Project because of financial risks and challenges.⁵⁰

ii. Commission Determination

28. We grant the Abandoned Plant Recovery incentive for ALLETE to have the opportunity to recover 100 percent of its prudently incurred costs for the Great Northern Project if it is abandoned for reasons beyond ALLETE's control. In Order No. 679, the Commission found that the Abandoned Plant Recovery incentive is an effective means of encouraging transmission development by reducing the risk of non-recovery of costs.⁵¹ We find that ALLETE has demonstrated, consistent with Order No. 679, that the

⁴⁸ ALLETE Filing at 12-13.

⁴⁹ ALLETE states that if the Manitoba Hydro subsidiary does not identify another MISO transmission owner to assume its share by mid-year 2016, then ALLETE will assume 100 percent ownership of the Great Northern Project. *Id.* at 13.

⁵⁰ *Id.* at 12-13.

⁵¹ Order No. 679, FERC Stats. & Regs. ¶ 31,222 at PP 163-166.

Great Northern Project faces substantial risks and that approval of the Abandoned Plant Recovery incentive will address those risks by protecting ALLETE if the project is cancelled for reasons outside ALLETE's control.

29. We will not determine the justness and reasonableness of ALLETE's Abandoned Plant Recovery, if any, until ALLETE seeks such recovery in a future section 205 filing. Order No. 679 specifically reserves the prudence determination for the later section 205 filing that every utility is required to make if it seeks Abandoned Plant Recovery. At such time, ALLETE will be required to demonstrate in its section 205 filing that abandonment was beyond its control, provide for rate authorization allowing for recovery of abandonment costs that were prudently incurred, and propose a rate and cost allocation method to recover the costs in a just and reasonable manner.⁵²

c. Total Package of Incentives

i. ALLETE Proposal

30. ALLETE states that it has tailored the requested incentives to meet the risks and challenges of the Great Northern Project. ALLETE states that the requested 100 percent CWIP recovery and Abandoned Plant Recovery incentives serve the same fundamental purpose of mitigating or reducing a particular risk or challenge and removing potential obstacles to project construction.⁵³ ALLETE states that, together, the incentives are designed to offset financial, regulatory, and other risks associated with the development and construction of the Great Northern Project. ALLETE states that the requested incentives work together to ensure that the Great Northern Project will be constructed and completed in a timely manner.

ii. Commission Determination

31. We find that the total package of incentives sought by ALLETE is tailored to address the risks and challenges that ALLETE faces in undertaking the Great Northern Project. As noted above, in Order No. 679-A, the Commission clarified that its nexus test is met when an applicant demonstrates that the total package of incentives requested is tailored to address the demonstrable risks or challenges faced by the applicant.⁵⁴ Applicants must provide sufficient support to allow the Commission to evaluate each

⁵² *Id.* P 166.

⁵³ ALLETE Filing at 11.

⁵⁴ Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 40; 2012 Incentives Policy Statement, 141 FERC ¶ 61,129 at P 10.

element of the package and the interrelationship of all elements of the package.⁵⁵ The Commission noted that this nexus test is fact-specific and requires the Commission to review each application on a case-by-case basis. The Commission has, in prior cases, approved multiple rate incentives for particular projects where appropriate. This is consistent with Order No. 679 and our interpretation of section 219 authorizing the Commission to approve more than one incentive rate treatment for an applicant proposing a new transmission project, as long as each incentive is justified by a showing that it satisfies the requirements of section 219 and is appropriate.⁵⁶ We find that ALLETE has demonstrated that each of the requested incentives, and the incentives package as a whole, address the risks and challenges faced by ALLETE in undertaking the Great Northern Project.

B. Revisions to Formula Rate

1. ALLETE Proposal

32. ALLETE states that it is proposing new line items in Attachment O – ALLETE of the Tariff in order to implement its requested incentives. Specifically, ALLETE proposes to add new line items in the rate base section for 100 percent CWIP recovery for Great Northern Project, pre-funded AFUDC on CWIP for Great Northern Project, and unamortized balance of abandoned plant for Great Northern Project.⁵⁷ Further, ALLETE proposes to add new line items to the transmission depreciation section for pre-funded AFUDC amortization for Great Northern Project and for abandoned plant amortization for Great Northern Project.

33. ALLETE maintains that it is not seeking approval to include any specific Abandoned Plant Recovery costs in these proposed entries and will maintain a value of zero for these lines in Attachment O until it receives Commission approval for Abandoned Plant Recovery, pursuant to a filing under section 205 of the FPA justifying the recovery of the costs at issue.⁵⁸

⁵⁵ 2012 Incentives Policy Statement, 141 FERC ¶ 61,129 at P 10 (quoting Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 40).

⁵⁶ Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 55. *See also Midcontinent Indep. Sys. Operator, Inc.*, 151 FERC ¶ 61,246 at P 35.

⁵⁷ ALLETE Filing at 18.

⁵⁸ *Id.*

2. Commission Determination

34. We accept ALLETE's proposed changes to its Attachment O – ALLETE. The proposed changes will facilitate the recovery of expenses related to the Great Northern Project. The proposed changes will also allow Great Northern Project to collect any unamortized abandoned plant costs, pending a separate section 205 filing, as discussed above.

C. Request for Waivers

35. We grant ALLETE's request for waiver of section 35.13(c), (d), (e), and (h) of the Commission's regulations, consistent with our prior approval of formula rates.⁵⁹ We deny ALLETE's request to waive the service requirements under 18 C.F.R. § 385.2010 because ALLETE appears to have already met the requirements, which contemplate electronic service. ALLETE states that it electronically served a copy of the filing on all MISO Tariff customers, all MISO Members, Member representatives of Transmission Owners and Non-Transmission Owners, MISO Advisory Committee participants, and all state commissions in the region. In addition, ALLETE states that the filing has been electronically posted on MISO's website.⁶⁰

The Commission orders:

(A) ALLETE's request for 100 percent CWIP recovery and Abandoned Plant Recovery for the Great Northern Project is hereby granted, subject to condition, as discussed in the body of this order.

(B) ALLETE's proposed revisions to Attachment O – ALLETE are hereby accepted, effective January 1, 2016.

⁵⁹ See *Commonwealth Edison Co.*, 119 FERC ¶ 61,238, at P 94 (2007), *order on reh'g*, 122 FERC ¶ 61,037, *order on reh'g*, 124 FERC ¶ 61,231 (2008).

⁶⁰ ALLETE Filing at 20.

(C) ALLETE is hereby directed to submit a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.