

E-015/PA-90-153 APPROVING TRANSFER OF PROPERTY

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Patrice M. Vick	Commissioner

In the Matter of Petition of Minnesota Power to Sell a Twenty Percent Ownership Share in the Boswell Generating Unit No. 4 Facilities to the Wisconsin Public Power Incorporated System

ISSUE DATE: August 24, 1990

DOCKET NO. E-015/PA-90-153

ORDER APPROVING TRANSFER OF PROPERTY

**PROCEDURAL HISTORY**

On March 13, 1990, Minnesota Power & Light Company (Minnesota Power) filed a Petition with the Minnesota Public Utilities Commission (Commission). The Petition requested an order approving the transfer of 20 percent of Minnesota Power's ownership interest in the Boswell Steam Electric Generating Station Unit No. 4 (Boswell 4) to Wisconsin Public Power Inc., System (WPPI) under Minn. Stat. § 216B.50 and Minn. Rules, part 7825.1800, item B.

On March 22, 1990, the Commission requested comments from interested persons on procedural issues related to this matter. Comments were received from Minnesota Power, Superwood et al., and the Office of the Attorney General (OAG).

On June 1, 1990, the Commission issued an Order Establishing a Notice And Comment Period And Requiring Response to Information Requests. This Order established that parties should file comments on the proposed sale by June 29, 1990 and reply comments by July 20, 1990.

On June 29, 1990, a Stipulation for Order Approving Transfer of Property and Order for Investigations was jointly submitted by Minnesota Power, the Department of Public Service, the OAG, and the Taconites (Hibbing Taconite Joint Venture, Inland Steel Mining Company, National Steel Pellet Company, Eveleth Expansion Company, Eveleth Taconite Company, and USX Corporation). On July 2, 1990, Superwood et al. submitted a separate letter indicating its support of the Stipulation. All of these parties requested that the Commission approve the proposed sale.

Based upon the Petition, the Stipulation of the parties, and all other pertinent matters, the Commission makes the following determinations:

## FINDINGS OF FACT

1. Minnesota Power owns 100 percent of four steam electric generating units at the Boswell station located near Grand Rapids, Minnesota, in Itasca County. Boswell 4 was completed in 1980 and is presently accredited by the Mid-Continent Area Power Pool (MAPP) at 535 megawatts (MW).
2. In July 1989, Minnesota Power and WPPI entered into a preliminary agreement to transfer 20 percent (approximately 100 MW) of Minnesota Power's ownership of Boswell 4 to WPPI. On January 12, 1990, Minnesota Power and WPPI executed a definitive purchase agreement entitled, "Clay Boswell Steam Electric Generating Station, Unit No. 4, Operation, Ownership and Power Sales Agreement Between Minnesota Power & Light Company and Wisconsin Public Power, Inc., System," (Agreement) which sets forth the substance of the transaction.
3. The Boswell 4 transfer is scheduled to close between May 1, 1990 and October 31, 1991, depending upon the timing of regulatory approvals and financing arrangements.
4. To address the uncertainty of the date of closing, Minnesota Power and WPPI have agreed to a repurchase or "buy-back" provision in which Minnesota Power would buy the Boswell 4 capacity and energy back from WPPI after the closing for a short period of time. Minnesota Power will buy back 100% of the capacity and energy for up to one year after closing and 60% for the second year after closing. The first buy-back period will be shorter than one year if the closing occurs after October 31, 1990. The price of the buy-back is based on WPPI's cost of ownership, but in no event will it exceed Minnesota Power's cost of ownership.
5. Under the Agreement, Minnesota Power has agreed to transmit WPPI's capacity and energy from Boswell 4 to various designated points of interconnection with the Northern States Power Company (NSP) integrated transmission network. NSP will then transmit such capacity and energy to WPPI.

### Facilities Transferred

6. The undivided 20 percent interest in the Boswell 4 facilities to be transferred from Minnesota Power to WPPI in the sale includes an undivided 20 percent interest in the following:

1) Clay Boswell Unit 4, a coal-fired steam electric generating unit, currently accredited by MAPP at 535 MW, including the turbine-generator, the boiler, the air quality control system, the buildings housing the same, the chimney, the cooling facilities, the associated auxiliaries and equipment, and all other property and property rights which are to be used solely in connection with Unit 4, and replacements thereof;

2) The Boswell 4 Site;

3) Various rights to operate and maintain, on the Boswell Plant Site, all portions of Boswell 4, including the Common Facilities and easements;

4) The Boswell 4 Portion of Common Facilities;

5) Water, air and all other permits, licenses and other regulatory documents issued in connection with Boswell 4; and

6) All contract rights for the benefit of Boswell 4, including any modification, addition, improvement or replacement (that is, replacement of components of Boswell 4 or replacement of Unit 4 on the Boswell 4 site) of Boswell 4, but excluding the Coal Supply Agreements.

### Purchase Price of Facilities

7. The negotiated purchase price, including transmission delivery, agreed upon by Minnesota Power and WPPI for the 20 percent interest in Boswell 4 is \$83,870,000 payable on the closing date. If the closing occurs after May 1, 1991, the purchase price is adjusted to increase .75 percent compounded monthly.

8. The purchase price (after excluding transmission delivery charges of approximately \$15.9 million) of the 20 percent interest in the Boswell 4 facilities is approximately \$67.9 million. The current estimate of the depreciated book value of these facilities, assuming a closing date of October 31, 1990, is approximately \$52.1 million, subject to minor adjustment for additions and retirements prior to closing. Thus, the resulting book gain to Minnesota Power relating to the sale is approximately \$15.8 million.

9. Pursuant to the AFPO Agreement, approved by the Commission on September 8, 1989 in In the Matter of the Petition of Minnesota Power & Light Company, d/b/a Minnesota Power, for Authority to Change Its Schedule of Rates for Retail Electric Service in the State of

Minnesota, Docket No.

E-015/GR-87-223, the Minnesota jurisdictional portion of the gain will be used to reduce the outstanding balances of the two AFPO Accounts.

10. WPPI has agreed to pay Minnesota Power approximately \$15.9 million for transmission delivery. The Agreement provides that the transmission delivery amount, which is a rate subject to Federal Energy Regulatory Commission (FERC) approval, will be paid in a lump-sum amount on the closing date.

### Public Interest Considerations

11. Minnesota Power proposes this sale for the purpose of balancing supply (generating capability) with system demand.

12. Following the sale of capacity to WPPI, Minnesota Power's generating capability will more closely correspond to its adjusted system demand.

13. The sale of Boswell 4 capacity will benefit the customers of Minnesota Power by reducing customer revenue requirements.

14. To assure that the reduction in revenue requirements caused by the sale is properly addressed, Minnesota Power has agreed that its rates shall become subject to refund on the two dates that the buy-back provisions are reduced and eliminated, respectively, pursuant to the terms of an Order for Investigations made simultaneously herewith.

15. Minnesota Power and the other parties to the Stipulation have agreed to provide ratepayers with the benefits of any transmission-related payment or payments by WPPI. Under the currently proposed transmission arrangement, Minnesota Power will begin amortizing the transmission delivery payment on the date of closing and ratepayers will receive a credit to revenue requirements equal to the return on and the recovery of the unamortized transmission delivery payment amount, commencing on the first investigation date, as provided in the Order for Investigations, or the filing for a general rate change, whichever occurs earlier. If the currently proposed transmission arrangement is subsequently modified, and approved by the FERC, Minnesota Power and the other parties to the Stipulation agree that ratepayers will receive the benefits of such modified transmission arrangement in a manner consistent with that agreed upon for the current proposal.

### CONCLUSIONS OF LAW

1. The proposed transfer must satisfy Minn. Stat. § 216B.50, subd. 1, which states:

Subdivision 1. No public utility shall sell, acquire, lease, or rent any plant as an

operating unit or system in this state for a total consideration in excess of \$100,000, or merge or consolidate with another public utility operating in this state, without first being authorized to do so by the commission. Upon the filing of an application for the approval and consent of the commission thereto the commission shall investigate, with or without a public hearing, and in case of a public hearing, upon such notice as the commission may require, and if it shall find that the proposed action is consistent with the public interest it shall give its consent and approval by order in writing. In reaching its determination the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated. The provisions of this section shall not be construed as applicable to the purchase of units of property for replacement or to the addition to the plant of the public utility by construction.

2. The proposed transfer of 20 percent of Minnesota Power's ownership interest in the Boswell 4 facilities to WPPI is consistent with the public interest under Minn. Stat. § 216.50.
3. The original cost less depreciation of Boswell 4 was included in Minnesota Power's rate base and the operating expenses associated with Boswell 4 were included in Minnesota Power's Operating Income Statement in In the Matter of the Petition of Minnesota Power & Light Company d/b/a Minnesota Power, for Authority to Change Its Schedule of Rates for Retail Electric Service in the State of Minnesota, Docket No. E-015/GR-87-223, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (March 1, 1988). In order to

deal with the issues referred to in Finding No. 14, the Commission shall concurrently issue an Order for Investigations into Minnesota Power's rates.

4. The proposal to provide ratepayers with the benefits of any transmission-related payment(s), as stated in Finding No. 15 above, is fair and reasonable.

### **ORDER**

1. The transfer by Minnesota Power to WPPI of the undivided 20 percent interest in the Boswell 4 facilities is approved.

2. Within 10 days after the issuance of this Order, Minnesota Power shall file with the Commission an agreement and undertaking to refund amounts in accordance with the Commission's Order for Investigations, the latter of which is served simultaneously with this Order.

3. Minnesota Power shall implement the proposal regarding any transmission-related payment(s), as stated in Finding No. 15 above.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

(S E A L)