

BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS  
600 North Robert Street  
St. Paul, MN 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION  
121 7<sup>th</sup> Place East, Suite 350  
St Paul MN 55101-2147

IN THE MATTER OF AN APPLICATION  
BY MINNESOTA POWER FOR  
AUTHORITY TO INCREASE RATES FOR  
ELECTRIC SERVICE IN MINNESOTA

MPUC Docket No. E015/GR-09-1151  
OAH Docket No. 3-2500-21031-2

**DIRECT TESTIMONY OF NANCY A. CAMPBELL**  
**ON BEHALF**  
**OF THE MINNESOTA OFFICE OF ENERGY SECURITY**  
**WITH THE MINNESOTA DEPARTMENT OF COMMERCE**

**MARCH 31, 2010**

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1 **VIII. LIMITED RATE ADJUSTMENT FOR SIGNIFICANT CHANGES IN LARGE**  
2 **CUSTOMERS OF MP**

3 **Q. Please explain what is meant by the phrase “Limited rate adjustment for significant**  
4 **changes in large customers of MP.”**

5 A. As explained in OES Witness Mr. Dale V. Lusti’s Direct Testimony starting on page 4,  
6 Minnesota Power filed this rate case the day after the effective date for final rates from  
7 the 2008 rate case. MP’s rate case proposes to set rates based on low Large Power (LP)  
8 sales, historically low locational marginal prices (LMP) for wholesale sales due to  
9 economic concerns, with no consideration that the economy would improve, as it has  
10 already begun to do, and no recognition that MP’s retail revenues could be significantly  
11 higher in the future. Setting rates based on these assumptions would increase rates  
12 artificially, and make it harder for customers in MP’s service territory to continue to  
13 recover from the recent economic downturn.

14  
15 **Q. Wouldn’t the OES adjustments correct for the flaws in MP’s rate case?**

16 A. To some extent, yes. OES makes a number of adjustments throughout various witnesses’  
17 testimony to correct for these flaws in the test year. For example, OES Witness Hwikwon  
18 Ham adjusted MP’s LP sales forecast to reflect known and measurable changes and, as  
19 described above, I adjust asset-based wholesale margins correspondingly. While these  
20 adjustments should adequately reflect current circumstances, they would not capture the  
21 effects of the upward trend that appears to be occurring for MP’s Large Power customers,  
22 which MP announced to its shareholders. OES also included a graph that shows capacity  
23 utilization for iron and steel for the past 20 years. This graph shows capacity levels at 70  
24 to 100 percent for the period 1990 to 2007, with decreases in 2008, and increases in 2009

1 and 2010. Both of these documents are included as OES Attachment \_\_\_\_ (NAC-19).

2 Based on this information, MP's revenues could increase significantly as a result of the  
3 addition of new customers, such as Polymet, which is at the permitting stage and other,  
4 unnamed new customers that MP expects to add to its system.

5  
6 **Q. What support do you have that MP Large Power sales could go up significantly?**

7 A. In addition to MP's recent presentation to its shareholders, I include as OES Attachment  
8 No. \_\_\_\_ (NAC-20), several recent articles indicating that new customers will be added to  
9 MP's system, or that existing large power customers will increase output or return to  
10 operation in 2010, along with some generic articles that discuss overall steel production  
11 being on the rise. The first article is specific to MP, which discusses steel workers  
12 returning to work as Hibbing Taconite, an idled plant, prepares for an April 2010 restart.<sup>2</sup>  
13 There are also two generic articles about steel production being on the rise. Finally, there  
14 are two articles regarding Franconia Minerals and Duluth Metals both beginning new  
15 drilling and/or considering new drilling in 2010 (or soon thereafter) for copper, nickel and  
16 platinum group metals.

17  
18 **Q. What is your proposal to address increases in sales to LP retail customers?**

19 A. As noted above, MP's sales to the LP class significantly affect MP's revenue  
20 requirement, both by increasing retail sales revenue and by decreasing wholesale  
21 revenues. However, most other factors largely remain the same. Thus, I recommend that,  
22 if there are specific changes pertaining to MP's large customers, MP's rates should be

1 adjusted as needed to reflect the net increase in retail revenues and net decreases in  
2 wholesale revenues.

3  
4 **Q. How would such a rate adjustment work?**

5 A. I recommend that the Commission adjust MP's rates to reflect increases in retail revenues  
6 and decreases in wholesale revenues due to any of the following events: 1) a new large  
7 customer is added to MP's system, 2) a previously idled large customer returns to MP's  
8 system or 3) an existing large customer increases production significantly.

9  
10 **Q. How would rates be adjusted if MP were to lose a Large Power customer?**

11 A. In Minnesota, the timing of rate cases is largely determined by utilities. Thus, MP can  
12 file a rate case at any time in the event MP loses enough revenues, as evidenced by MP's  
13 choice to file the current rate case days after the effective date of final rates in MP's 2008  
14 rate case. MP would continue to have that option. However, to capture efficiencies of  
15 avoiding a full-blown rate case, I would be willing to expand this proposal to adjust rates  
16 if an existing customer leaves MP's system or shuts down production for an extended  
17 period, greater than one year.

18  
19 **Q. How would this limited rate adjustment work?**

20 A. This mechanism would use the large power quarterly nominations and reports from MP to  
21 assess when any new large customer is added to MP's system, which would include  
22 Polymet, or when an idled large customer returns to taking service, or when an existing

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<sup>2</sup> See MP's supplemental response to OES information request 506, specifically Attachment 1, shows Hibbing Taconite being reflected in March-August energy nominations and will likely be reflected in a

1 customer increases energy use significantly. The OES is willing to work with MP and  
2 MP's large power customers to define "significant."

3 If any of the above events occurs, MP would be required to make a limited rate  
4 adjustment filing providing the nomination of the new or existing customer. MP would  
5 also be required to include the resulting gross revenues added by such a customer, the  
6 resulting decrease in wholesale revenues, and any associated incremental costs and the  
7 resulting net income impact, including all supporting calculations.

8  
9 **Q. Does this proposal include increases in revenues for other retail customers?**

10 A. No. The goal of this approach is to adjust rates only for the effects of increases in sales  
11 and revenues to MP's large customers, due to the significant effects of swings in sales to  
12 these customers on MP's rates.

13  
14 **Q. What rate design and other factors would be used in such a proceeding to set rates?**

15 A. Rates set in such a proceeding would use the same rate design, cost of capital and other  
16 factors determined in this rate case. The only changes would be to retail revenues,  
17 wholesale revenues, and potentially for any significant and reasonable changes in  
18 incremental costs to serve any new customer, to the extent such costs are not offset by  
19 revenue contributions from the customer.

20  
21 **Q. What review process would occur in the limited rate adjustment filing?**

22 A. If none of the events noted above occur between the end of the current rate case and MP's  
23 subsequent rate case, there would be no rate adjustment filing. If such an event does

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retail sales adjustment in this rate case by MP according to that response.

1 occur, then interested parties would have 90 days from the date of MP's filing to file  
2 comments on MP's limited rate adjustment filing. To help ensure that the review can  
3 continue in a reasonably efficient manner, OES recommends that the Commission set a  
4 deadline of 10 calendar days for any information request responses, consistent with the  
5 timeline set in most rate cases. MP would then have 30 days to file reply comments. The  
6 issues should be limited in such proceedings and should be relatively simple to resolve.

7  
8 **Q. What do you recommend for purposes of implementing any resulting rate**  
9 **adjustment?**

10 A. Any resulting rate adjustment would be implemented 30 days after the Commission  
11 issues its Order in the limited rate adjustment filing.

12  
13 **IX. SUMMARY OF RECOMMENDATIONS**

14 **Q. Please summarize your recommendations.**

15 A. My specific recommended adjustments are listed below. The financial effects of these  
16 recommendations are included in the schedules of OES Witness Mr. Lusti's testimony  
17 (OES Attachment No. \_\_\_\_ (DVL-2)).

18  
19 **MP's Purchase of DC Line from Square Butte:**

20 I recommend that the Commission require MP to:

- 21
- 22 • reduce capital plant in rate base by \$2.3 million for the difference in the  
23 purchase price of \$72 million in the test year and \$69.7 million shown in MP's  
24 own accounting entries in MP's March 2, 2010 Compliance Filing in Docket  
E015/PA-09-526;