

August 24, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Comments on Minnesota Power's Petition for Approval of an Electric Service Agreement between Magnetation, LLC and Minnesota Power – Docket No. E-015/M-15-699

Dear Mr. Wolf:

Fresh Energy respectfully submits these comments regarding Minnesota Power's petition for approval of an electric service agreement (ESA) between the utility and Magnetation, LLC, filed on July 24, 2015.¹ Fresh Energy highlights a specific provision in the ESA that inhibits progress on the Minnesota Public Utilities Commission's (Commission) Order in Minnesota Power's last Integrated Resource Plan, and is inconsistent with the public interest regarding the system benefits of on-site generation.

Page nine of the "Amended and Restated Electric Service Agreement between Magnetation LLC and Minnesota Power" included in Minnesota Power's petition filed on July 24, 2015, states the following:

Unless the Parties otherwise agree in a written amendment to this Agreement, Customer agrees that the entire electric service requirement commitment provided in this Paragraph *precludes any right to construct, operate or utilize self-generating or cogenerating capacity*, or for Customer to purchase electric service from any other person or party to meet the Power and Energy requirement of the Plant 2 Facilities, Plant 4 Facilities and Jesse Loadout Facilities during the term of this Agreement *regardless of any changes in applicable law.*²

Fresh Energy concludes that this ESA provision is not consistent with the public interest for the following reasons:

1. **This provision in the proposed ESA is inconsistent with the Commission's November 12, 2013 Order in Minnesota Power's last Integrated Resource Plan.**³ On page six of that ruling the Commission states the following:

The Commission agrees with the Environmental Intervenors that the energy savings goals described in Minn. Stat. § 216B.2401 and 216C.04 do not exclude consideration of savings that may be achieved by Minnesota Power's CIP-exempt customers. A significant amount of demand on Minnesota Power's system comes from CIP-exempt customers, but Minnesota Power's resource plans—which must consider energy conservation as an energy resource—serve CIP and CIP-exempt customers alike. Accordingly, resource planning should reflect the possibility of energy conservation among all of Minnesota Power's customers.

¹ Docket No. E-015/M-15-699

² Emphasis added.

³ Docket No. E-015/RP-13-53.

The Commission will therefore require Minnesota Power's next resource plan filing to include more detailed information concerning *system-wide energy conservation*. Specifically, analysis and aggregated energy savings data for CIP-exempt customers will be required. This information will help *paint a more complete picture of the possibilities for energy conservation on Minnesota Power's system*.⁴

While energy conservation may often focus on demand-side energy use *reduction* measures, Fresh Energy points out that energy conservation can also include more efficient *generation* resources. Strategically placed onsite generation can offer energy savings compared to centralized generation loads by avoiding line loss in energy delivery and allowing more economically efficient generation by better aligning generation with customer demand. Efficient customer-owned generation resources are not precluded by the Commission's November 12 ruling, and should be considered under the system-wide energy conservation umbrella.

Fresh Energy is not implying that specific undisclosed or unutilized potential for onsite generation exists at the Magnetation mining sites. However, this explicit ban on onsite generation opportunities appears to be a standard element of Minnesota Power ESAs, and the standard contract language is at odds with the Commission Order requiring Minnesota Power to evaluate additional conservation scenarios for its CIP-exempt customers.

2. **The Department of Commerce's investigation into existing standby rates demonstrates that there are system benefits of on-site generation.** On February 12, 2015, the Commission issued a *Notice of Comment Period on Scope for Generic Proceeding on Standby Service Tariffs following the Department of Commerce's recommendation for a generic docket on standby service tariffs*. The Department's standby report and stakeholder comments demonstrate that on-site customer generation can provide both individual customer and system-wide benefits. Excluding on-site generation, as this ESA does, eliminates the possibility for realizing these benefits for all parties.
3. **Customer utilization of cost-effective on-site resources can maintain large customers' competitiveness, ensuring system viability to other customers.** The *2015 Competitive Rate for Energy-Intensive, Trade-Exposed Electric Utility Customer* legislation allows Minnesota Power to propose various rate options for their energy-intensive, trade-exposed large customers. The legislation states:

Subd. 2. Rates and terms of EITE rate schedule. (a) It is the energy policy of the state of Minnesota to ensure competitive electric rates for energy-intensive trade-exposed customers. To achieve this objective, an investor-owned electric utility that has at least 50,000 retail electric customers, but no more than 200,000 retail electric customers, shall have the ability to propose various EITE rate options within their service territory under an EITE rate schedule that include, but are not limited to, fixed-rates, market-based rates, and rates to encourage utilization of new clean energy technology. ⁵

The legislation aims to ensure competitiveness of Minnesota Power's large customers. Fresh Energy contends that on-site resources should be an option for large customers covered under ESAs as they strive to maintain competitiveness. Properly-valued on-site resources have an added benefit of providing whole-system benefits that do not shift costs to other ratepayers.

⁴ Emphasis added.

⁵ 2015 Minnesota Session Laws, Ch. 1 H.F. No. 3, Sec. 26.

Recommendations

Fresh Energy recommends that the Commission amend the provision highlighted above in the proposed ESA to better align with the Commission's order in Minnesota Power's previous Integrated Resource Plan. The Commission should strike the quoted language above, replace it with the following language, and approve Minnesota Power's petition for approval.

Both parties agree to identify and analyze energy savings opportunities, including but not limited to, self-generating and cogeneration capacity at the Plant 2 Facilities, Plant 4 Facilities, and the Jesse Loadout Facilities during the term of this Agreement, and pursue these opportunities to the extent they benefit the Customer's long-term operations and expenses and the Company's long-term system-wide resource portfolio.

The ESA language quoted above appears to be a standard contract provision in other ESAs offered by Minnesota Power. Fresh Energy recommends that future ESAs modify the restrictions on on-site customer resources in a similar manner.

Please contact us at the information below with any questions.

Sincerely,

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