

June 18, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Reply Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/M-14-155
Docket No. E015/M-14-166

Dear Dr. Haar:

On February 20, 2014, Minnesota Power (MP or the Company) filed a Petition with the Minnesota Public Utilities Commission (Commission) for Approval of an Amended and Restated Electric Service Agreement between Mesabi Nugget and Minnesota Power (Amended ESA).

On February 24, 2014, the Company filed a Petition with the Commission for Approval of Modifications to Erie Mine Site Service Schedule (proposed EMSS). MP stated that Mesabi Nugget was the only customer eligible to take service under the EMSS.

The two dockets are related since, under the proposed Amended ESA, Mesabi Nugget committed to purchase all of its electric service requirements for its iron nugget and mining facilities near Hoyt Lakes, Minnesota from MP through at least 2023, without any right of prior termination under both the EMSS and Large Power (LP) Service Schedule.

Under the Commission-approved ESA (current ESA), Mesabi Nugget has already agreed to purchase all of its electric service requirements from MP through at least December 31, 2017, without any right of prior termination. Under the current ESA, service would continue following this initial term until and unless the current ESA is terminated by either Party (MP or Mesabi Nugget) providing written notice to the other delivered at least four years prior to termination. The current ESA initially applies the Commission-approved EMSS (current EMSS) and other applicable schedules and then transitions Mesabi Nugget solely to the Large Power Service Schedule following termination of the current EMSS (December 31, 2013).

On March 31, 2014, the Division of Energy Resources of the Minnesota Department of Commerce (Department) filed comments in Docket Nos. E015/M-14-155 and E015/M-14-166. In its comments, the Department identified several issues that needed to be addressed by the Company to complete the record in these matters.

On April 15, 2014, Mesabi Nugget filed its reply comments addressing both Dockets. Mesabi Nugget's reply included the following item as requested by the Department:

- MP and Mesabi Nugget evaluated service under MP's Large Power Development Rider and concluded that Mesabi Nugget does not qualify for service under this Rider.

On April 28, 2014, MP filed its reply comments addressing both dockets. MP's reply included the following items as requested by the Department:

- The entire original State Master Agreement (Attachment A of MP's reply comments). No modifications have been made to the Agreement according to MP.
- MP's statement that it expected the four state agencies that signed the State Master Agreement to send a letter to the Commission confirming that Minnesota Power's proposal to eliminate the six-year maximum term to the availability section of the EMSS tariff is acceptable.
- A 2010 letter from Polymet (Attachment B of MP's reply comments) notifying MP that "Polymet will no longer be taking the minimum 2,000 kW of billing demand required by the Erie Mine Site Service schedule to maintain its current and future rights to the 10,000 kW of Erie Mine Site Service previously committed to." (emphasis added)
- A statement that an Area Development Rider would not be an acceptable option.
- Clarification by MP that:

[i]f the test year for Minnesota Power's next rate case includes Mesabi Nugget sales and revenues under the existing ESA at the same or higher level as the proposed Mesabi Nugget ESA, there will not be incremental benefits to other ratepayers associated with the proposed ESA. Other ratepayers would benefit in a subsequent rate case that includes revenues beyond Mesabi Nugget's existing contractual commitments.
- MP's conclusion that "[t]he unique circumstances that were the genesis for the EMSS Schedule still provide justification for continuing Mesabi Nugget's ability to take service under the EMSS Schedule," even after MP's proposed closure of Taconite Harbor Unit 3 in 2015 approved by the Commission in its November 12, 2013 Order *Approving Resource Plan, Requiring Filings, and Setting Date for Next Resource Plan*, Docket No. E015/RP-13-53.

On June 2, 2014, the Iron Range Resources & Rehabilitation Board (IRRRB) filed its reply comments addressing both Dockets. IRRRB's reply included the following item as requested by the Department:

- Letter serving as:
 - ...confirmation by the State parties to the State Master Agreement regarding LTVSMC and LTV Steel Company, Inc. that the undersigned agencies support the *Petition by Minnesota Power for Approval of Modifications to EMSS* and an effective date of January 1, 2014, since both are consistent with the original intent of the EMSS provision of the State Master Agreement.
- This letter was signed the Commissioners of the Minnesota Department of Revenue, Minnesota Pollution Control Agency, Minnesota Department of Natural Resources and the IRRRB.

The Department appreciates the additional information, which fully supports MP's proposals in the two dockets while the trapped capacity exists. Thus, the Department recommends approval of the proposed EMSS and the Amended ESA until the earlier of the following two events: 1) the end date of the proposed ESA and 2) any circumstance that would eliminate the current Taconite Harbor excess capacity of 25 MW that is available for local load only, including but not limited to MPs' proposed closure of Taconite Harbor Unit 3 by the end of 2015.

The Department notes that the proposed EMSS is applicable to any new industrial, mining or manufacturing customers located at the former Erie Mine Site or, subject to the prior written approval of the Company, at any location in or around Hoyt Lakes, Minnesota where service can be taken from MP's 138 kV transmission line. As discussed in MP's response to discovery from the Department, the rationale for this restricted application of the proposed EMSS is that the available transmission from the Taconite Harbor units would not be enough to support all of the units installed generating capacity.¹ The corresponding excess capacity of 25 MW would be available for local load only.² Therefore, the Department concludes that the proposed EMSS and the Amended ESA would not result in rates that are unreasonably preferential, or discriminatory to customers located outside of the applicable area until the elimination of the current Taconite Harbor excess capacity of 25 MW that is available for local load only, including but not limited to MPs' proposed closure of Taconite Harbor Unit 3 by the end of 2015.

It is clear from the record that it is reasonable to continue to offer the EMSS rate under the current configuration of the Taconite Harbor generation facilities. For example, provision

¹ Source: Attachment 1.

² As discussed by MP on page 8 of the instant filing.

8(b) of the Agreement attached to MP's reply comments indicated that the EMSS would not be available once there was a change to Taconite Harbor generation facilities:

Subsequent to the closing of the transactions contemplated by the Asset Purchase Agreement, MP shall ... File by January 1, 2002 for Minnesota Public Utilities Commission approval of a rate schedule effectuating MP's commitment to provide up to 25 MW of the accredited capacity of the Generation Facilities, at such facilities' cost based rate (including future capital additions) pursuant to a power purchase agreement between MP and [Rainy River Taconite Harbor³]. Availability of the rate is subject to the continuing operation of the Generation Facilities in their present coal fired configuration. The rate under such schedule shall be in effect for a six-year period from the date of [Cliffs-Erie, LLC's] eligibility for this rate.

Based on the development of facts in this proceeding, the Department concludes that provision of service to Mesabi Nugget under the proposed EMSS and/or the Amended ESA is reasonable until there are material changes to the Taconite Harbor generation facilities (such as Taconite Harbor 3 being retired). However, as approved by the Commission in Minnesota Power's 2013 resource plan, Taconite Harbor unit 3 is to be removed from MP's system by the end of 2015, which would eliminate the excess capacity that would be available for local load only.⁴ Thus, at that time, it will be necessary to assess whether MP's rates are unreasonably preferential or discriminatory to customers located outside of the applicable area.

The Department recommends that MP provide in a compliance filing the revised (red-lined and clean) versions of the proposed EMSS and the Amended ESA consistent with the decisions of the Commission in these matters.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ KATE O'CONNELL
Manager, Energy Regulation and Planning

KO/lt

³ In 2006, MP described Rainy River as a non-regulated affiliate "engaged in the acquisition and development of nonregulated generation and wholesale power marketing."

⁴ Source: Commission's November 12, 2013 Order *Approving Resource Plan, Requiring Filings, and Setting Date for Next Resource Plan*, Docket No. E015/RP-13-53.

Attachment 1

Attachment inadvertently omitted from the Department's June 18, 2014 Reply Comments in Docket Nos. E015/M-14-155 and E015/M-14-166.

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Utility Information Request

Docket Number: E015/M-14-166

Date of Request: February 28, 2014

Requested From: Minnesota Power

Response Due: March 12, 2014

Analyst Requesting Information: Samir Ouanes

Type of Inquiry: Financial Rate of Return Rate Design
 Engineering Forecasting Conservation
 Cost of Service CIP Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
2	<p>Reference: MP's February 24, 2014 petition (Petition) for approval of the Erie Mine Site Service Schedule (proposed Schedule)</p> <p>The Petition (page 6) states that "Minnesota Power proposes to eliminate the maximum contractual term of six years in order to allow the <u>one</u> existing customer, Mesabi Nugget, to continue taking service on the EMSS Schedule under the currently applicable conditions." (emphasis added)</p> <p>Given that the application of the proposed Schedule is limited to only one customer, please provide MP's complete analysis showing that approval of the proposed Schedule will not result in rates that are unreasonably preferential, or discriminatory to (existing, potential or future) customers <u>located outside of the applicable area.</u></p> <p><u>Response:</u></p> <p>The EMSS Schedule is applicable to customer(s) located at the former Erie Mine Site or, subject to the prior written approval of the Company, at any location in or around Hoyt Lakes, Minnesota where service can be taken from the Company's 138 kV transmission line. The rationale for this restricted application of the EMSS Schedule is that the available transmission</p>

Response by: Marcia Podratz

List sources of information: _____

Title: Director - Rates

Department: Rate Department

Telephone: 218-355-3570

capability from the Taconite Harbor plant is not enough to support all of the plant's installed generating capacity. The corresponding excess capacity is available for local load only. Therefore, approval of the proposed EMSS Schedule would not result in rates that are unreasonably preferential, or discriminatory to customers located outside of the applicable area. This is consistent with the conclusion of the Department of Commerce in its June 9, 2003 Comments regarding the Company's original petition for approval of the EMSS Schedule in Docket No. E-015/M-03-717 (Page 2, Section III, paragraph 2).

Response by: Marcia Podratz

List sources of information:

Title: Director - Rates

Department: Rate Department

Telephone: 218-355-3570

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Attachment 1**

Docket No. E015/M-14-155 and E015/M-14-166

Dated this 19th day of June 2014

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_14-155_M-14-155

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Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_14-166_M-14-166
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_14-166_M-14-166
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_14-166_M-14-166
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