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March 4, 2016

VIA E-FILING

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place Street, Suite 350
St. Paul, MN 55101

Re: In the Matter of Minnesota Power's Application for Approval of its 2015-2029 Resource Plan
PUC Docket No. E015/RP-15-690

Dear Mr. Wolf:

Attached for filing in connection with the above-mentioned docket, please find a Reply Comment filed on behalf of Large Power Intervenors.

Very truly yours,

Stoel Rives LLP

/s/ Sarah Johnson Phillips

Sarah Johnson Phillips

SJP:srb
Attachment

cc: Service List

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

In the Matter of Minnesota Power's Application for Approval of its 2015-2029 Resource Plan	PUC Docket No. E015/RP-15-690 **LPI REPLY COMMENT**

The Large Power Intervenors ("LPI"), consisting of ArcelorMittal USA (Minorca Mine); Blandin Paper Company; Boise Paper, a Packaging Corporation of America company, formerly known as Boise, Inc.; Enbridge Energy, Limited Partnership; Hibbing Taconite Company; Mesabi Nugget Delaware, LLC; PolyMet Mining, Inc.; Sappi Cloquet, LLC; USG Interiors, LLC; United States Steel Corporation (Keetac and Minntac Mines); United Taconite, LLC; and Verso Corporation; submit the following reply comments with respect to Minnesota Power's application for approval of its 2015-2029 integrated resource plan (the "Resource Plan").

I. INTRODUCTION

On October 7, 2015, the Minnesota Public Utilities Commission (the "Commission") issued a notice of comment (the "Notice"), setting the due dates for initial comments and reply comments for January 4, 2016, and March 4, 2016, respectively. On November 4, 2015, Minnesota Power submitted a supplemental filing responding to a request by the Minnesota Department of Commerce – Division of Energy Resources (the "Department"). In compliance with the October 7 Notice, LPI, the Department, and Fresh Energy, the Minnesota Center for Environmental Advocacy, the Sierra Club, and Wind on the Wires (together, the "Clean Energy Organizations" or "CEO") each submitted initial comments on the Resource Plan on January 4, 2016. LPI submits this reply comment to respond to certain issues and arguments raised by the Department and CEO in their initial comments.

LPI urges the Commission to take a "no regrets" approach in timing the retirement of small coal facilities and procurement of new resources. Minnesota Power largely takes such an approach in its proposed short term action plan, with the exception of its (already issued) request for proposals ("RFP") for new natural gas generation. LPI previously expressed concerned over the scope and timing of that RFP and now urges the Commission to require Minnesota Power to revise it in accordance with the Resource Plan, after it is approved, and in a manner that encourages participation of customers interested in self-generation or cogeneration.

II. ANALYSIS

A. The Commission Should Approve Minnesota Power's Plan to Idle THEC 1 & 2 and Wait to Shut Down BEC 1 & 2 as the No Regrets Approach

In comments filed in January, both the Department and CEO questioned Minnesota Power's proposals for the future of its remaining small coal generation facilities, including Taconite Harbor Energy Center Units 1 and 2 (150 MW) located near Schroeder, Minnesota ("THEC 1 & 2") and Boswell Energy Center Units 1 and 2 (130 MW) co-located with larger coal units at the Boswell Energy Center in Cohasset, Minnesota ("BEC 1 & 2"). In its proposed short-term action plan, Minnesota Power proposed to idle THEC 1 & 2 in 2016 and thereafter use the facilities for reliability purposes when appropriate based on market conditions. With respect to BEC 1 & 2, the company proposed to reduce the emissions profile of the facilities by leveraging the environmental infrastructure at the BEC facility. In contrast, the Department recommends shutting down THEC 1 & 2 in 2017 and BEC 1 & 2 in approximately 2022 when a new combined cycle facility comes online. CEO argues that THEC 1 & 2 should be shut down immediately. LPI, however, still believes that, in light of on-going regulatory uncertainty, Minnesota Power's more cautionary approach to the future of these facilities will preserve more flexibility to make the most cost-effective decisions for ratepayers.

In its Strategist analysis, the Department analyzed potential shutdown dates for THEC 1 & 2 and BEC 1 & 2.[1] The Department generally concluded that shutting down THEC 1 & 2 early is more cost effective than a later shut down date and, as a result, recommended the early shut down option (2017).[2] For BEC 1 & 2, the Department concluded that an early or late shut down would be close in cost.[3] Because the Department also concluded that shutdown of BEC 1

[1] Department Comment at 19.

[2] Department Comment at 31.

[3] Department Comment at 32.

& 2 could require Minnesota Power to obtain market energy and capacity, it recommended that shutdown of these units be timed to correspond with the addition of new natural gas capacity.[4] The new natural gas capacity would be part of a "small coal replacement package" targeted for 2022 of approximately 100 MW of wind, 50 MW of solar, and 200 MW of combined cycle natural gas capacity.[5]

LPI appreciates the Department's analysis, but in considering the future of Minnesota Power's small coal fleet, there are broader regulatory and reliability issues that will ultimately affect the cost to ratepayers of these decisions. With respect to THEC 1 & 2, at the end of the Minnesota Power's last resource plan proceeding, the Commission ordered Minnesota Power to provide "a full analysis of retiring or repowering [THEC 1 & 2], including transmission and distribution effects."[6] Minnesota Power conducted this analysis and, among other things, determined that shutting down THEC 1 & 2 "would create transmission reliability concerns in the area, and upgrades are required to ensure the electric service to Minnesota Power customers is maintained."[7] The cost of the required upgrades is significant.[8] However, it does not appear that the Department or CEO meaningfully analyzed the need for or cost of these upgrades. As Minnesota Power argues, the near-term economic idling option appears to allow the most flexibility for a smooth transition toward a complete shutdown of these units.

With respect to BEC 1 & 2, Minnesota Power proposes that these units continue to operate until 2024, which is the end of their useful accounting lives. Like the Department, Minnesota Power's current analysis suggests that at the time of their retirement, these units should be replaced by efficient natural gas generation. The main difference is that the Department would push retirement of BEC 1 & 2 to be sooner—around 2022 or as soon as the replacement gas generation can come online. LPI is concerned that this push to retire BEC 1 & 2

[4] Department Comment at 32.

[5] Department Comment at 36.

[6] *In the Matter of Minnesota Power's 2013-2028 Integrated Resource Plan*, Docket No. E-015/RP-13-53, ORDER APPROVING RESOURCE PLAN, REQUIRING FILINGS, AND SETTING DATE FOR NEXT RESOURCE PLAN at 8 (Nov. 12, 2013).

[7] *Resource Plan* at 53.

[8] See *Resource Plan* at 53 (Trade Secret version).

early has not fully accounted for the broader system reliability and operational implications for the larger Boswell facility identified by Minnesota Power.[9] In addition, as further explained below with respect to Minnesota Power's RFP, LPI also is concerned about this push to make a firm commitment to new gas generation sooner than necessary and without full exploration of alternatives. By 2024, there may be more cost effective options available for replacement of these units.

As described in LPI's initial comments, there are multiple regulatory proceedings and rulemakings underway, including development of the Clean Power Plan, that will particularly affect Minnesota Power's coal-fired generation and resource decisions. While these regulations develop, there is significant uncertainty in determining the lowest cost strategies for compliance. For example, while Minnesota and some other states are moving ahead with discussion and preparation for the Clean Power Plan, actual implementation is on hold until the Supreme Court lifts its stay and the lawsuit challenging it is resolved by the courts.

Finally, even though both the Department and CEO recommend significant changes to Minnesota Power's preferred plan that amount to offerings of alternative plans, LPI notes that neither party has performed an analysis of the effect of their proposed alternative plans on customers' bills and Minnesota's Power's rates. Minn. R. 7843.0300 subp. 11, requires alternative resource plans to address the factors listed in Minn. R. 7843.0500 subp. 3. These factors include the ability of a resource plan to "keep the customers' bills and the utility's rates as low as practicable, given regulatory and other constraints." The focus of the rules on both rates and bills is important because it clarifies the real world impact on customers compared to the more removed cost-effectiveness analysis provided by Strategist modeling. Thus, the Commission does not have sufficient information to fully evaluate the alternative plans offered by the Department and CEO.

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[9] *Resource Plan* at 45.

B. Minnesota Power's Natural Gas RFP should be Withdrawn and Revised to be Commensurate with the Resource Plan (when Approved) and to Allow Customer Participation

In LPI's initial comment, LPI expressed concern that Minnesota Power has already issued an RFP for up to 400 MW of natural gas generation in the 2022-2024 timeframe when the company's not-yet-approved short-term action plan only calls for 200-300 MW of natural gas generation in 2024. LPI was concerned that the need for such a resource had not yet been demonstrated and that an action plan incorporating such an RFP had not yet been approved by the Commission. CEO expressed similar concerns in its initial comment about the RFP being premature and too narrow.[10] In addition to those concerns, LPI believes that the RFP as issued was too narrow in scope and too limited in its publication. In a recent proceeding regarding the Electric Service Agreement ("ESA") between Magnetation, LLC and Minnesota Power, the Commission directed Minnesota Power to "work with any large power customer who is interested in self-generation or cogeneration to determine how those generation additions may be incorporated into the Company's resource-planning decisions."[11] In that decision, the Commission also noted that it agreed with and adopted the recommendations of the Department. In considering potential changes to a provision in the ESA regarding self-generation options, the Department remarked that:

> … if considered in the larger context of MP's resource plan and overall system needs, self-generation or co-generation could be part of a cost-effective plan to reliably and efficiently serve MP's customers. The Department notes that MP considered numerous resource options in its recently filed IRP, some of which could represent customer-sited generation. In addition to ensuring that MP fully and fairly considers customer-sited and distributed generation, as well as demand side resources in its planning processes, MP should also ensure these resources are fully and fairly considered when MP acquires additional resources, such as through a request for proposal (RFP). The Department requests the [sic] MP explain if [sic] reply comments how customer-sited and distributed generation resource could participate in its resource

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[10] CEO Comment at 23.

[11] *In the Matter of Minnesota Power's Petition for Approval of an Electric Service Agreement Between Magnetation, LLC and Minnesota Power*, Docket No. E-015/M-15-699, ORDER (Feb. 2, 2016).

> acquisition process. The Commission could also consider requiring MP to provide notice to existing customers of any resource acquisition process to ensure those customer [sic] are able to participate.[12]

Building on the Commission's recent direction in the Magnetation ESA proceeding, LPI requests that the Commission order Minnesota Power to formalize a process for working with large power customers interested in self-generation or cogeneration and incorporating such resource options into the Company's resource planning process. Further, building on the Department's comments in that proceeding, LPI requests that the Commission require Minnesota Power to give customers notice of any resource acquisition process arising from this Resource Plan.

C. Minnesota Power Complied with Order Point 12 from the Commission's 2013 Resource Plan Order

In its initial comments, CEO argues that Minnesota Power did not comply with the Commission's Order Point 12(b) and (c),[13] which directed Minnesota Power to "[i]dentify the amount of system-wide energy savings, including aggregate data for CIP-exempt customers, embedded in each year of its load forecast" and "[e]valuate additional conservation scenarios for its CIP-exempt and non-CIP-exempt customers, that would achieve greater energy savings beyond those in the base case."[14] In particular, CEO suggests that Minnesota Power's response fell short because it "did not analyze any additional conservation scenarios for CIP-exempt customers" and did not use the same evaluation, measurement, and verification techniques on CIP-exempt customer savings as it used to verify CIP customer savings. LPI strongly disagrees with these assertions and believes that Minnesota Power's filing was more than adequate to comply with Order Point 12. Moreover, CEO's suggestions run counter to the requirements of the CIP statute.

Minnesota Power identified embedded energy savings for both CIP and CIP-exempt customers, as required by Order Point 12(b), in Appendix B of its Resource Plan filing.[15] Also

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[12] *Id.* at 4-5.

[13] CEO Comment at 40-41.

[14] *2013-2028 Resource Plan Order* at 8.

[15] *Resource Plan*, App. B at 74-78.

in Appendix B, Minnesota Power analyzed additional conservation scenarios that would achieve energy savings beyond the base case[16] and explained the inherent challenges of modeling energy savings for CIP-exempt customers.[17] Specifically, Minnesota Power explained:

> Minnesota Power conducts cost/benefit analysis for non-CIP-exempt customers using measure-specific cost estimates, assumptions of consumer behavior, and general assumptions of potential savings. In contrast, CIP-exempt customers' conservation is characterized by large and irregular energy saving projects, often requiring significant capital investment. There are also very few CIP-exempt customers; application of general assumptions for consumer behavior or potential savings is appropriate when applied to a large group of residential or commercial customers, but is not a viable approach to CIP-exempt conservation planning. Without gaining access to forward looking and proprietary business specific plans for each CIP-exempt customer, or making considerable assumptions that may not be well-founded, Minnesota Power cannot evaluate conservation scenarios on behalf of its CIP-exempt customers in the same way it may evaluate conservation measures for non-CIP-exempt customers.[18]

Minnesota Power went on to describe several CIP-exempt customer energy savings projects that provide example scenarios for CIP-exempt customer savings opportunities.

The Department also analyzed Minnesota Power's efforts to address Order Point 12 in its initial comments.[19] While the Department included a recommendation for altering Minnesota Power's method for estimating embedded savings (including large energy savings projects), it also noted that it is not aware of any industry best practices for estimating the amount of energy savings in a forecast.[20] The Department also ultimately concluded that a higher energy savings goal would be appropriate, but at no point did it suggest that Minnesota Power failed to comply with Order Point 12. Further, on November 9, 2015 the Department submitted a comment letter concluding that, based on Minnesota Power's supplemental filing of information related to Order

[16] *Resource Plan*, App. B, Parts 1 and 2.

[17] *Resource Plan*, App. B at 75-77.

[18] *Resource Plan*, App. B at 76.

[19] Department Comment at 42-52.

[20] Department Comment at 45.

Point 12 on November 4, 2015, Minnesota Power's Resource Plan could be considered complete. While that determination was not a comment on the merits of Minnesota Power's filing, it was an indication that Minnesota Power has provided all of the relevant and required information relating to Order Point 12.

LPI agrees with Minnesota Power's approach to addressing Order Point 12 and emphasizes that CIP-exempt customers, which include members of LPI, compete in global industries and have their own strong incentives to reduce their production costs. The CIP statute recognizes this built-in incentive and makes it the basis for obtaining a CIP exemption.[21] By statute, CIP-exempt customers are responsible for planning, financing, and implementing their own energy conservation and energy efficiency efforts.[22] For these reasons, and as Minnesota Power pointed out in its response to CEO Information Request No. 23, the utility is not required to verify the energy savings reported by customers who do not participate in CIP. Further, CIP-exempt customers are not required to report the highly confidential and proprietary information Minnesota Power would need to perform such verification. Efficiency is of the utmost importance to the energy-intensive, trade-exposed customers that compose the CIP-exempt customer group, but it is not legally or practically possible to impose CEO's suggestion that Minnesota Power should use the same evaluation, measurement, and verification techniques on CIP-exempt customer savings as it used on CIP customer savings.

III. RECOMMENDATIONS

In LPI's initial comment, LPI expressed concerns about Minnesota Power's increasingly uncompetitive industrial rates, but otherwise generally expressed support for Minnesota Power's proposed short-term action plan because it maintains flexibility for choosing least-cost options for meeting future regulatory requirements. However, pursuant to the Commission's authority to "approve, reject, or modify"[23] a utility's proposed resource plan, LPI requests that the Commission modify Minnesota Power's proposed Resource Plan to incorporate revisions to its

[21] Minn. Stat. § 216B.241, subd. 1a(b).

[22] Minn. Stat. § 216B.241 subd. 1a(b).

[23] Minn. Stat. § 216B.2422, subd. 2.

RFP and RFP process in order to allow customers to participate. In summary, LPI requests that the Commission order the following:

- Approve Minnesota Power's proposed short-term action plan, with the exception of the RFP for new natural gas generation.
- Order Minnesota Power to formalize a process for working with large power customers interested in self-generation and incorporate that process into the resource planning process, starting with Minnesota Power's next resource plan.
- Determine that Minnesota Power's RFP for up to 400 MW was issued prematurely and that, following the Commission's approval of the Resource Plan, the RFP should be reissued with a revised size and scope commensurate with the approved Resource Plan and allowing responses that incorporate customer self-generation or cogeneration.
- Require Minnesota Power to give notice of the RFP and any resource acquisition process to existing customers to ensure that customers are able to participate.

Date: March 4 , 2016

Respectfully submitted,

STOEL RIVES LLP

/s/ Andrew P. Moratzka

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Attorneys for Large Power Intervenors

CERTIFICATE OF SERVICE

I, Sharla Backer, hereby certify that I have this day served a true and correct copy of the following document to all persons at the addresses indicated below or on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States Mail at Minneapolis, Minnesota.

REPLY COMMENT ON BEHALF OF LARGE POWER INTERVENORS

In the Matter of Minnesota Power's Application for Approval of its 2015-2029 Resource Plan
PUC Docket No. E015/RP-15-690

Dated this 4th day of March 2016.

/s/ Sharla Backer
Sharla Backer