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Christopher D. Anderson  
Associate General Counsel  
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RECEIVED June 11, 2004

JUN 14 2004

Dr. Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, MN 55101-2147

**PUBLIC  
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Re: In the Matter of an Investigation into the Appropriateness of  
Continuing to Permit Electric Energy Cost Adjustments  
Docket No. E-999/CI-03-802

Dear Dr. Haar:

Enclosed for filing with the Commission, please find Minnesota Power's Supplemental Reply Comments in the above-referenced Docket in response to the Department of Commerce ("Department") Reply Comments dated April 5, 2004. An Affidavit of Service is also enclosed.

Parts of the Petition contain trade secret information and are marked as such pursuant to the Commission's Revised Procedures for Handling Trade Secret and Privileged Data, which further the intent of Minn. Stat. §13.37 and Minn. Rule Part 7829.0500. The Commission's Rules of Practice and Procedure require that six copies of the public version and the original and nine copies of the Trade Secret version be filed. The Trade Secret Justification Statement filed by Minnesota Power in Docket E,G999/AAA-01-838 continues to apply to this filing.

Please call me at the number above if you have any questions.

Yours truly,

Christopher D. Anderson

kl  
Enclosures  
c: Service list

STATE OF MINNESOTA     )  
  ) ss  
COUNTY OF ST. LOUIS     )


AFFIDAVIT OF SERVICE VIA  
FIRST CLASS MAIL

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Kristie Lindstrom of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 11<sup>th</sup> day of June, 2004, she served Minnesota Power's Supplemental Reply Comments in Docket E-999/CI-03-802 to Burl Haar, Kathy Aslakson and Curt Nelson via First Class Mail. The persons on the attached Service List were served the Public Version via First Class Mail.

Kristie Lindstrom

Subscribed and sworn to before  
me this 11<sup>th</sup> day of June, 2004.

  
\_\_\_\_\_  
Notary Public



E999/CI-03-802

Dr. Burl W. Haar  
MN Public Utilities Commission  
Suite 350  
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E999/CI-03-802

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Christopher D. Anderson  
Senior Attorney  
Minnesota Power  
30 West Superior Street  
Duluth, MN 55802

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In the Matter of an Investigation into  
the Appropriateness of Continuing to  
Permit Electric Energy Cost Adjustments

Docket No. E-999/CI-03-802  
**SUPPLEMENTAL  
REPLY COMMENTS**

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In the Department of Commerce (“Department”) Reply Comments dated April 5, 2004 in the above-referenced Docket, the Department noted at page 5 that Minnesota Power has included Mid-Continent Area Power Pool (“MAPP”) fees in its fuel clause adjustment (“FCA”) since the mid-1990s. The Department requested that Minnesota Power provide the following information in reply comments:

1. The basis to allow Minnesota Power to pass through MAPP costs;
2. Where recovery of MAPP costs is indicated in its FCA filings; and
3. The amount of MAPP costs Minnesota Power has recovered from its customers in the past three years.

**1. The basis to allow Minnesota Power to pass through MAPP costs.**

Minnesota Rules, Parts 7825.2390 through 7825.2920, which establish the requirements for implementing fuel clause adjustments, specifically allow for recovery of energy delivery costs. Minnesota Rules, Part 7825.2390 (PURPOSE) states:

The purpose of parts 7825.2390 to 7825.2920 is to enable regulated gas and electric utilities to adjust rates to reflect changes in the cost of energy **delivered** to customers from those costs authorized by the commission in the utility's most recent general rate case. (emphasis added)

As described in more detail in Minnesota Power’s February 19, 2004 Initial Comments in this Docket, MAPP transmission costs have become a fundamental element of the net energy cost of energy purchases. Without the transmission component, it would be impossible to reliably deliver the purchased energy to Minnesota Power’s system.

Minnesota Power has treated MAPP transmission fees for energy purchase transactions as costs of purchased power for its FCA since the mid-1990s when the change in the federal energy markets allowed MAPP to implement such fees for transmission. When MAPP first formed in the early 1970s, wheeling for non-firm energy transactions between members – primarily outage replacement energy and economy purchases – was at no cost except for energy loss compensation. Members could purchase firm transmission paths for a fixed fee (typically by six-month Pool season) and once purchased, firm energy could be scheduled with no additional wheeling fee similar to the non-firm transactions. In the mid-1990s however, MAPP implemented transmission fees for all transactions. In recent years, firm transmission has been necessary for reliable energy delivery even for short-term transactions (typically a month or less in duration).

It is on this basis that Minnesota Power includes MAPP transmission charges as a component of the cost of energy purchased. The energy cost of market purchases is defined to be the total delivered cost of the energy purchase. Delivered cost includes the cost of energy from the seller, any MAPP transmission fees required for delivery of the energy to Minnesota Power and energy losses to the point of delivery.

Minnesota Power does not believe that a variance to the FCA rules is required for recovery of MAPP transmission costs. In accordance with Minnesota Rules, Minnesota Power's Rider for Fuel Adjustment<sup>1</sup> (attached as Exhibit 1) specifies that Minnesota Power's Fuel Cost shall include:

the net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis, this encompasses energy being purchased to substitute for Company's own higher cost energy.

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<sup>1</sup> Approved by the Commission in Docket No. E-015/M-01-514

Minnesota Power has previously communicated with the Department regarding the inclusion of these transmission costs in its FCA (see Minnesota Power's December 3, 2001, response to Department Information Request No. 54 in Docket Number E.G999/AAA-01-838<sup>2</sup>, attached as Exhibit 2). In that response, Minnesota Power provided a summary of year 2000 electric energy costs for retail customers included in the FCA, using specific categories requested by the Department, including fuel from generation, purchase power, purchase steam, and other/transmission costs.

In a follow-up telephone conversation with the Department in January 2002 regarding Minnesota Power's response to Information Request No. 54, Minnesota Power also indicated that because non-firm energy purchases (including non-firm transmission to ensure delivery to Minnesota Power's control area) are made any time they reflect the least-cost alternative at the time, Minnesota Power has treated MAPP transmission fees for non-firm transactions as costs of purchased power for its FCA. At the request of the Department, the substance of this telephone conversation was documented by Minnesota Power and emailed to the Department on January 28, 2002 (attached as Exhibit 3).

It should be noted that the non-firm energy market during year 2000 was fairly liquid, and transmission paths for non-firm transactions were typically available with little risk of curtailment. However, since that time firm transmission has become necessary for reliable energy delivery.

**2. Where recovery of MAPP costs is indicated in Minnesota Power's FCA filings.**

Minnesota Power includes MAPP transmission costs associated with energy purchases in Line No. 2, Fuel Cost Component of Purchased Energy, on page 1 of its monthly FCA data provided to the Department. An example of this report was provided in Exhibit C of Minnesota Power's Initial Comments.

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<sup>2</sup> Minnesota Power's annual automatic adjustment filing, which is examined each year by the Department as part of its normal review process.

Minnesota Power could begin reporting the transmission component of purchased energy as a separate Trade Secret line item in its monthly reports to assist the Department's identification of those costs.

**3. The amount of MAPP costs Minnesota Power has recovered from its customers in the past three years.**

In 2002, Minnesota Power included \$[TRADE SECRET DATA EXCISED] of MAPP transmission costs associated with energy purchases from other utilities in the fuel adjustment clause. In 2003, Minnesota Power included \$[TRADE SECRET DATA EXCISED] of such transmission costs in the fuel adjustment clause. In 2004 through April, Minnesota Power included \$[TRADE SECRET DATA EXCISED] of such transmission costs in the fuel adjustment clause. For each of these years, the MAPP transmission costs represented less than 1 percent of total purchased energy costs included in the FCA.<sup>3</sup> Note that during years when major generating unit outages occur, such as Minnesota Power's Boswell Unit 4 from February through May 2004, the quantity of purchased energy and associated transmission costs required for customer load subject to fuel adjustment is higher than in other years.

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<sup>3</sup> Total purchased energy costs were \$[TRADE SECRET DATA BEGINS 15,248,912 in 2002: \$28,886,854 in 2003 and \$33,914,221 (to date) in 2004. TRADE SECRET DATA ENDS]



Minnesota Power appreciates the opportunity to respond to the Department's request for additional information on this issue.

Dated: June 11, 2004

Respectfully submitted,

A handwritten signature in black ink, appearing to read "C. D. Anderson", written over a horizontal line.

Christopher D. Anderson  
Associate General Counsel  
Minnesota Power  
30 West Superior Street  
Duluth, MN 55802  
(218) 723-3961

**ATTACHED HERETO  
IS  
EXHIBIT 1**

**MINNESOTA POWER & LIGHT COMPANY**  
**ELECTRIC RATE BOOK - VOLUME I**

SECTION  V  PAGE NO.  50   
 REVISION  13th

**RIDER FOR FUEL ADJUSTMENT**

**FUEL CLAUSE NO. 16**

Applicable to electric service under all Company's Retail Rate Schedules except Competitive Rate Schedules - Rate Codes 53, 59, 73 and 79, and Residential Service - Seasonal, Rate Codes 13, 23 and 33.

There shall be added to or deducted from the monthly bill an amount per kilowatt-hour determined as the amount by which the Fuel Cost divided by the Kilowatt-Hour Sales is greater than or less than 1.018 cents per kilowatt-hour. The Fuel Cost shall be the sum of the following during the first two of the preceding three months: (a) the fossil and nuclear fuel consumed in Company's generating stations, (b) the net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis, this encompasses energy being purchased to substitute for Company's own higher cost energy, (c) the actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in (b) above, (d) the cost of steam from other sources used in the generation of electricity at the Company's generating stations, (e) the cost of the Released Energy Credit paid to Customer(s) for avoided energy purchases under the Rider for Released Energy, (f) the cost of the Buyback Energy Credit paid to Customer(s) for avoided energy purchases under the Rider for Voluntary Energy Buyback, and less (g) the cost of fossil and nuclear fuel and the cost of steam from other sources recovered through inter-system sales including the fuel and steam costs related to economy energy sales and other energy sold on an economic dispatch basis. The Kilowatt-Hour Sales shall be Company's total kilowatt-hour Sales of Electricity, excluding inter-system sales referred to in (g) above; all for the first two of the preceding three months.

**FUEL CLAUSE NO. 17**

Applicable to electric service under Company's Residential Service - Seasonal Schedule, Rate Codes 13, 23 and 33.

The fuel adjustment amount per kilowatt-hour determined under Fuel Clause No. 16 for the June billing period shall be applicable to all kilowatt-hours used during that 12 month annual period June through May.

Filing Date  April 16, 2001  MPUC Docket No.  E-015/M-01-514   
 Effective Date  July 12, 2001  Order Date  July 12, 2001

Approved by: \_\_\_\_\_  
 Susan K. Thompson  
 Manager – Customer Service

**ATTACHED HERETO  
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EXHIBIT 2**

**PUBLIC  
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State of Minnesota  
DEPARTMENT OF COMMERCE  
Utility Information Request

**PUBLIC  
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Docket Number: E,G999/AAA-01-838

Date of Request: November 21, 2001

Requested From: William A. Carlson, Minnesota Power

Response Due: December 3, 2001

Analyst Requesting Information: Nancy Campbell, Joe Holliman

Type of Inquiry: ..... Financial      ..... Rate of Return      ..... Rate Design  
..... Engineering      ..... Forecasting      ..... Conservation  
..... Cost of Service      ..... CIP      ..... Other: Electric Utility Automatic  
Fuel Cost Adjustments

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

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Request  
No.

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54      Please provide a breakout of year 2000 electric energy costs for retail customers included in the fuel adjustment clause using the following categories:

- Account 501, Fuel from Generation
- Account 518, Nuclear Fuel Expense
- Account 555, Purchase Power (separate this into subgroups for energy and capacity)
- Other Costs (please identify costs by labeling, for example, transmission costs)

For 2000, the breakdown of electric energy costs for retail customers was as follows:

	<b>[BEGIN TRADE SECRET DATA EXCISED</b>
Account 501 - Generation	\$
Account 518 - Nuclear	\$
Account 555 - Purchase Power	\$
Account 503 - Purchase Steam	\$
Other - Transmission costs	\$
	<b>END TRADE SECRET DATA EXCISED]</b>

Response by: William A. Carlson

List sources of information:

Title: Controller

Department: Accounting

Telephone: 218-722-5642, Ext. 3284

The values shown above are reduced for fuel clause calculations by the fuel cost recovered through inter-system sales of approximately \$[TRADE SECRET DATA EXCISED] for the year 2000.

In addition, Account 555 relates to energy costs only as MP does not include capacity related charges in the fuel clause calculation.

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Response by: William A. Carlson  
Title: Controller  
Department: Accounting  
Telephone: 218-722-5642, Ext. 3284

List sources of information:

**ATTACHED HERETO  
IS  
EXHIBIT 3**

## Chris Anderson (ALLETE)

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**From:** Chris Anderson (ALLETE)  
**Sent:** Monday, January 28, 2002 7:47 AM  
**To:** Nancy Campbell (E-mail)  
**Subject:** IR 54

Here is the write-up from the phone conversation John Rothamel and I had with you.  
CDA



DoC-IR54.doc  
(27 KB)



**Minnesota Power's Follow-up Response to  
Department of Commerce Information Request #54  
Docket E.G999/AAA-01-838**

When the Mid-Continent Area Power Pool (MAPP) first formed in the early 1970s, wheeling for non-firm energy transactions between members, primarily outage replacement energy and economy purchases, was at no cost except for energy loss compensation. Members could purchase firm transmission paths for a fixed fee (typically by six-month Pool season) and once purchased, firm energy could be scheduled with no additional wheeling fee similar to the non-firm transactions.

Due to developments in the wholesale market, there are three levels of transactions that affect transmission costs and the reliability of the energy purchased. From the lowest to highest cost, they include:

**Non-Firm**

After the FERC issued its Orders 888 and 889 in the mid-1990's, MAPP was required to re-state its agreement with member utilities and began charging transmission wheeling fees for non-firm energy transactions. MAPP began charging these during the summer of 1995, and rates included variable charges (based on energy scheduled and distance between buyer and seller); administration fee (to cover MAPP expenses); and a one-time scheduling fee. These were applicable on all transactions involving non-firm schedules. Because there is no reservation fee component for non-firm energy transactions, the variable energy fee for non-firm is higher than the energy fee component of Non-Firm Reserved and Firm.

**Non-Firm Reserved**

Another new feature in the Restated MAPP Agreement was an optional fee for reserving transmission for non-firm transactions. This gave a non-firm energy buyer the option to mitigate (to some extent) the risk of having non-firm transactions curtailed during periods of peak transmission utilization. These reservation fees are fixed in nature and can be made for a day, week, month or several months. Scheduled transactions over these reserved paths include lower variable energy fees than for non-firm transactions.

**Firm**

As before, MAPP members may also purchase firm transmission, which comes with the highest fixed fees. Once this path is established, the variable fees on energy scheduled over this path are at no cost or are at a relatively small fee (compared to those for non-firm transactions).

Supply decisions are made each day and each hour as to the least-cost supply alternative for customers subject to the FAC. A non-firm energy purchase – including the non-firm transmission to ensure delivery to Minnesota Power's control area – is made anytime it reflects the least-cost alternative at the time. For this reason, Minnesota Power has treated

MAPP transmission fees for non-firm transactions as costs of purchased power for its FAC. For Minnesota Power in calendar year 2000 the vast majority of non-firm purchases to serve customers subject to the Fuel Adjustment Clause were made during major generator outages in the spring and fall. Minnesota Power did not purchase firm transmission or reserve non-firm paths for this outage replacement energy because we deemed the additional cost of assuring reliability was not justified by the higher cost. Minnesota Power also purchased some non-firm energy around the hours of system peaks to acquire additional low-cost energy; however, these purchases represented less than 1% of energy costs incurred during the times Minnesota Power's generating units were not otherwise suffering an outage for maintenance purposes.

Minnesota Power should also clarify the table of information provided in response to the Department's Information Request #54. During calendar 2000, the electric energy costs for retail customers subject to the FAC were as follows:

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Account 501	Generation
Account 518	Nuclear
Account 555	Purchased Power
Account 503	Steam
Other	Transmission
Total	
Less: Fuel Cost Recovered From Inter-System Sales	
Net Fuel Cost to FAC	

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It should be noted that during calendar 2000, all of the costs shown above for "Other Transmission" reflect transmission costs for non-firm purchases from MAPP and were booked to Account 555. Minnesota Power segregated these costs from the Purchased Power total in its initial response due to a misinterpretation of the Information Request.

It should further be noted that these costs reflect variable MAPP transmission fees since Minnesota Power did not choose to reserve paths for non-firm transmission in 2000. The non-firm energy market during calendar year 2000 was fairly liquid and transmission paths for non-firm transactions were typically available. Therefore, the risk of curtailment was judged to be less than the added cost for non-firm path reservations.