Minnesota
Citizens Federation
Northeast

www.citizensfed.org

Formerly:
Minnesota Senior Federation Northeast

Member of

Greater Minnesota Health Care Coalition

VIA ELECTRONIC FILING
December 21, 2015

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

RE: In the Matter of Minnesota Power's Petition for Energy-Intensive Trade-Exposed Cost Recover Rider PUC Docket No. E015/M-15-984

Executive Secretary Daniel P. Wolf:

Enclosed are the **CORRECTED** comments of the Minnesota Citizens Federation Northeast in response to the November 19, 2015 Notice of Comment Period on Minnesota Power's Petition for Energy-Intensive Trade-Exposed (EITE) cost recovery rider (Docket No. E015/M-15-984.) Our organization objects to the proposed rate shift from Large Power customers onto other customers, especially the Residential class. The correction contains one important sentence, on page 2, which was inadvertently omitted in our submission earlier today.

Sincerely,

Buddy Robinson

Buddy Robinson, Staff Director
Minnesota Citizens Federation Northeast

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STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

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Docket No. E015/M-15-984

In the Matter of a Petition to Ensure Competitive Electric Rates for Energy-Intensive Trade-Exposed Customers

INITIAL COMMENTS OF
Minnesota Citizens Federation Northeast

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I. SUMMARY

The Minnesota Citizens Federation Northeast (Citizens Federation), a charitable, non-profit membership consumer organization, objects to Minnesota Power's request on behalf of its Energy-Intensive Trade-Exposed (EITE) customers to shift $17.5 million in electric rate expense from the Large Power class onto other classes, especially the residential class which will suffer the vast majority of the proposed rate shift and suffer real economic harm.

The Public Utilities Commission (PUC) should deny this request, because it does not meet the test of public interest and net benefit to the state, which is mandated by Minnesota Statutes § 216B.1696, enacted earlier this year. When the PUC is ready to accept comments about rate subsidization between customer classes, the Citizens Federation will present evidence which contradicts the assertion that the Large Power class is subsidizing residential class. For the present, our comments are focused on the question of net public benefit of the rate shift.

The Citizens Federation, previously known as the MN Senior Federation Northeast, has intervened in all of Minnesota Power's rate cases before the PUC, going back to the late 1970's, and in the last two cases as part of the Energy CENTS Coalition, which is also submitting comments, with which we concur, in the current docket . The Citizens Federation directly represents over 1,000 members, including over 800 in Minnesota Power's service territory. We indirectly represent all low and middle income residential customers of Minnesota Power.

II. PREMISE OF THE PROPOSED RATE SHIFT

The proposed rate shift is premised on a need for economic relief for Minnesota Power's Large Power (LP) customers, which are paper mills and more predominantly, taconite plants. The impetus for the new legislation enacted in 2015 was specifically the world-wide plunge in steel prices, which has made the Iron Range taconite plants unable to compete financially. This has led to devastating plant closures and laying off of workers, and general economic harm.

Therefore, the assumption underlying the request for the rate shift is that the proposed 4.7% reduction in the LP electric bills from MN Power will materially contribute to the taconite mines' ability to compete in the world market, and thereby help Iron Range mines and jobs. However, this assumption is – unfortunately -- pure fantasy. The proposed rate reduction is less than one-tenth of the cost reduction that the taconite mines need in order to compete, and therefore will fail to provide any benefit of reduced loss of taconite sales and jobs.

III. PLUNGE IN STEEL PRICES

The worldwide glut of steel production, coupled with slowed demand in China, dumping of unfairly subsidized foreign steel and currency imbalances, has put the price for Iron Range taconite into free fall. The price of Iron Range taconite has dropped from about $186 per ton in 2011 to $130 in late 2012, to $100 in May of 2014. The Duluth News Tribune reported on June 21, 2015 that the global spot price of taconite was $54 per ton. On Nov. 17, 2015, the Duluth News Tribune reporter John Meyers reported a price of $47, and on Nov. 25, he wrote that the price of taconite had fallen below $45, "which is less than it costs most Minnesota operations to produce it."

IV. HOW MUCH WOULD THE RATE SHIFT HELP THE TACONTIE COMPANIES?

A March 18, 2015 Duluth News Tribune article quotes State Rep. Tom Anzelc as saying that "Energy costs make up between 25 and 28 percent of the cost at taconite plants and paper mills." An Oct. 29, Duluth News Tribune article reports that Cliffs "cut its production cost from $56 to $49 per ton." If you apply the 25% to 28% amount to the $49 per ton figure, you come up with an electricity cost for Iron Range taconite of roughly $12.25 to $13.72 per ton. It would be important for the PUC to find out more exactly what portion of production costs are represented by electricity purchases for the companies in question. The exact numbers would not likely be higher than these, and might be less.

If you apply the proposed rate reduction of 4.7% to the electricity component of production cost ($12.25 to $13.72 per ton), you get a dollar amount reduction of about 57 cents to 64 cents per ton, if the proposed rate shift is approved. . A June 21, 2015 Duluth News Tribune article quotes State Rep. Tom Anzelc as stating: "The companies say they need to take $10 per ton off their production costs just to remain viable." ***This means that the proposed 57 to 64 cents reduction amounts to less than one-tenth of the total cost reduction of $10 per ton that the taconite companies need in order to be able to sell more product.***

This glaring fact begs the question: If the proposed rate shift is approved, how can it possibly help the taconite companies sell one more ton of ore, recall one mine worker, or save one more mining job? The answer is that it cannot. MN Power's petition provides no evidence at all that it would. Instead, MN Power focuses at length on the benefits to the region that occur ***when*** the taconite and paper industries are healthy, which is irrelevant to the pressing question at hand: Would the proposed electric shift restore that health, which is now seriously damaged? Again, there is no evidence that it would.

The mining companies did seek, and received, a concession from the state, in terms of a vacation from royalty fees. However, that only reduces their cost by a mere 16 cents per ton, as noted in the Duluth News Tribune on June 3 and Dec. 2, 2015. That reduction, in combination with the proposed reduction from the rate shift, still adds up to less than one-tenth of the $10 per ton cost reduction needed to be able to compete.

V. THE WORLDWIDE GLUT IN STEEL

The distress of the US taconite and steel industries is not likely to get any better in the near future, and will likely get worse. There has been a deep reduction in steel demand in China. Illegal dumping of subsidized steel contributes to the inability of American steel to compete. Expansion of production in places like Brazil and Australia, and strong production in Japan, promises to make the glut in the steel market worse, and prolong the bust for domestic steel and taconite.

The worldwide glut is likely to last for years. The new bust in the Iron Range taconite industry is the worst since the 1980s. Many analysts say It will likely turn out to be even worse than that one, and last longer. The industry may never recover back to the recent boom level of a few years ago. The glut is poised to keep getting bigger, since the Australian Royal Hill mine is coming on line now, and the Brazilian Seral Sul mine will come on line in late 2016.

Amazingly, the domestic taconite industry is adding to its own problem, with the new Essar Steel taconite mine in Nashwauk ready to start operating and further increase the glut, as mentioned in a Duluth News Tribune article on Oct. 25, 2015.

VI. ONLY TARIFF RELIEF CAN SAVE THE INDUSTRY

The critical need for the US taconite and steel industry, according to Governor Dayton, Senators Franken and Klobuchar, Congressman Nolan, and economic experts, is for the US government to impose tariffs on subsidized, low cost steel from other countries. If that is done, and to an adequate level, then the domestic industry can survive, without any need or justification for an electric rate reduction for taconite plants

If, however, the federal government fails to impose tariffs on foreign steel, then the domestic industry faces a very bleak future, and an electric rate reduction would make no difference on the outcome. It would be a totally inadequate drop in the bucket.

VII. ECONOMIC HARM TO THE REGION FROM RATE SHIFT

What the proposed $17.5 million/year rate shift can be counted on to do, however, is to economically harm the already economically distressed northeast Minnesota region. For many laid off mine workers, this would add insult to injury: The rate shift will not get them their jobs back, but it will further harm their ability to make ends meet for their households. Many other area residents are low and moderate income, and cannot bear the additional expense that this unjustified rate shift would impose on them.   According to MN Power's petition, their proposal exempts 11,135 low income households who are on the Energy Assistance (LIHEAP) program. However, MN Power's Dec. 3, 2015 letter to the Arrowhead Economic Opportunity Agency states that 36,000 households are eligible for this assistance, but not signed up for it. This means that 25,000 people who ought to get an exemption from the rate shift – by MN Power's own figures – will not get it.   In addition, the added expense of the rate shift onto many small businesses is a burden for them.   The much larger burden for businesses and the local economy will be the loss of $17.5 million of purchasing power from area residents, since the vast majority of that money is spent in the local economy.

VIII. WHO LOSES, WHO WINS?

As noted above, the proposed 4.7% reduction in electricity costs for the taconite mines is nowhere near sufficient to enable them to weather the severe downtown in the market they are facing.   It is inconceivable that granting the rate shift will translate into saving any mine workers' jobs, and MN Power has provided no evidence to show otherwise. To save the industry and miners' jobs – and spin-off jobs as well -- hope depends totally on a decision that the federal government could make to impose significant tariffs on foreign steel. Currently, no one knows whether the federal government will take that action.

Meanwhile, as also noted above, the rate shift onto residential users will clearly have a very harmful economic impact on households, businesses, and the local economy. For average electric use, a household will have to pay, including taxes, about $146 per year more. That might seem minor to some people, but for people struggling with meeting their bills now, it is a cruel and unwelcome blow. According to the Social Security website, 46,115 residents of St. Louis County received Social Security benefits in December, 2014. And as stated above, some 25,000 low income people will not get exempted from a rate hike, because they are not enrolled in LIHEAP even though they are within the income limits. Some low income people heat with electricity, and the added expense – for the ones who won't get exempted from the hike – will cause them significant hardship.

A question arises about the $17.5 million reduction in expense for the LP class, which the PUC should pay attention to: If the proposed reduction won't help increase sales or save any jobs, then what will happen to it? The only place left for it to go is into profits, which end up in the pockets of steel and paper company shareholders and as executive compensation.

Earlier this year, the 2014 compensation of US Steel's CEO, of $13.2 million, was in the spotlight. Some comments about that appeared in a March 18, 2015 article in the Duluth News Tribune: Rep. Carly Melin, from Hibbing, said this is "a textbook example of corporate greed in America." Rep. Tom Anzelc of Balsam Township said "the arrogance of this company is unbelievable." The contrast between the income of the industry executives and their own laid-off workers, and the low to moderate incomes of most area residents, is startling.

The net effect of the proposed rate shift is that instead of improving the economic health of Northeast Minnesota and its residents, it will have the exact opposite effect. That is why the PUC should reject Minnesota Power's proposal.

IX. PROCESS ISSUES REGARDING COST ALLOCATION

The new, unprecedented nature of this expedited proceeding, established in statute earlier this year, raises large conflicts with how the PUC has traditionally operated. The intended consequence of shifting costs from industry users to small users has come up repeatedly in general rate cases of MN Power. It is often a contested issue, which in the context of a normal general rate case plays out over the course of a year or more, including information request rights for intervenors, and thorough scrutiny by the PUC, the Dept. of Commerce, and the Office of Attorney General.

A MN Power official, Patrick Mullen, was quoted by reporter John Meyers in the Duluth News Tribune on Nov. 18, 2015 as pointing out that as a result of the 2010 general rate case, LP rates were increased 16% while residential rates only went up 4%. However, he neglected to point out that in the case just before that one, in 2009, the results were the opposite: Residential rates went up 12%, while LP rates went up only 2.2%. On top of that, a 60% increase in energy charge was imposed on residential rates.

In its current petition, MN Power points out that if it loses much of its LP sales, it will have no choice but to shift a large amount of fixed cost onto the residential class: "With EITE Customers paying a portion of fixed costs, the average fixed costs that are paid by other Minnesota Power customers are lower. Without the contributions from EITE customers to cover these costs, the portion of fixed costs on other customers' bills would need to increase significantly." (MN Power petition, pages 28 and 29) This statement unwittingly reveals the obvious truth: MN Power's enormous generating and load capacity was built to the extent it was because of the need to serve the LP class.

The 2015 legislation to allow the kind of rate shifts proposed for this docket seems to be predicated on a theory which some might view as settled science, but that is not the case. The theory in question is the notion that the company's Cost Of Service studies, which are based on Embedded Cost Theory, "prove" that the LP class is subsidizing residential users. The Citizens Federation, in past years, submitted a number of alternative Cost Of Service studies, based instead on Marginal Price Theory. Those studies directly refute the conclusions derived from MN Power's Cost Of Service studies based on Embedded Cost Theory. The Citizens Federation studies were done decades ago, but the basic facts of the contrast between the size and usage of the respective customer classes, and the respective needs for generating capacity, are essentially the same. The contrast between the two kinds of studies, based on two different economic theories, can be brought to light when the PUC opens up comments for this topic, at which time we will submit comments and evidence to further explain our contention.

A very quick glimpse of the question of subsidy can be seen by looking at MN Power's Third Quarter 2015 10 Q filing with the Securities and Exchange Commission, dated Nov. 3, 2015. It has cumulative figures for quarters one through three of 2015. There are breakdowns in revenue and kwh sales, for both the Residential customers and for Industrial customers (which is a combination of the Large Power and the Large Light & Power classes). Making the calculations as described above, you find that Residential customers used 833 million kwh in nine months, for a price of $86.3 Million (which includes demand charge as well as per-kwh charges). In total, it divides out to 10.36 cents per kwh -- with the demand charges rolled in. For the Industrial customers, the figures are 5,063 million kwh, for a price of $320.7 Million. In total, it divides out to 6.33 cents per kwh – with the service charges rolled in. **10.36 cents per kwh residential versus 6.33 cents per kwh industrial: How can anyone look at that and claim that the large users are subsidizing the residential class?**

We make reference to these points now simply to emphasize that the issue of "who is subsidizing whom" is a professionally debatable topic which demands a proper investigation, instead of a "fast track" process which pretends that this debate doesn't exist.

X. RECOMMENDATIONS

1. The PUC should reject MN Power's petition, because instead of producing a net benefit to the state, it will produce a net harm. It will not help the taconite companies save sales or jobs, but it will impose economic hardship on an already suffering region.

2. If the PUC feels that it might be possible that the proposed rate shift could benefit the state, then the PUC should initiate a thorough investigation, as allowed under State Statutes 216B.21 (subd. 1), with information request rights for intervenors, and a reasonable timetable to obtain and judge relevant facts. Those facts would include data on how many cents per ton the electric reduction would amount to for taconite production costs, and what portion that would be of the total cost reduction which would be needed in order to compete. In addition, data should be gathered to quantify the harm to area residents and businesses which would be caused by the $17.5 million rate shift.

3. If the PUC wants to consider the question of whether the Large Power class is subsidizing the Residential class, then it should do so properly within a specific investigation that the PUC could conduct by its powers under State Statutes 216B.21 (subd. 1), or in a general rate case.