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March 31, 2014

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

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

Dear Dr. Haar:

Attached are the comments of the Division of Energy Resources of the Minnesota Department of Commerce (Department) in the following matter:

Minnesota Power's Petition for Approval of an Amended and Restated Electric Service Agreement between Mesabi Nugget and Minnesota Power.

The petition was filed on February 20, 2014 by:

David R. Moeller  
Senior Attorney  
Minnesota Power  
30 West Superior Street  
Duluth, Minnesota 55802

The Department recommends **that MP provide additional information in reply comments** and is available to answer any questions the Commission may have.

Sincerely,

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

KO/lt  
Attachment



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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET NO. E015/M-14-155

**I. SUMMARY OF MP'S PROPOSAL**

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).

Under the proposed Amended ESA, Mesabi 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 (yet to be approved by the Commission) Erie Mine Service Schedule (EMSS) and Large Power (LP) Service Schedule.

Under the Commission-approved ESA (current ESA), Mesabi 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 will continue following this initial term until and unless the current ESA is terminated by either Party (MP or Mesabi) 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).

**II. BACKGROUND**

In 2001, MP and Cleveland-Cliffs worked with the Minnesota Iron Range Resources and Rehabilitation Board, the Minnesota Department of Natural Resources, the Minnesota Department of Revenue and the Minnesota Pollution Control Agency to acquire the northeastern Minnesota assets of LTV Steel Mining Company (LTV).

In October 2001, Rainy River-Taconite Harbor (RRTH), a subsidiary of MP, and Cleveland Cliffs purchased portions of LTV's Minnesota assets through the bankruptcy proceeding of LTV. The Company purchases included the transmission line from Taconite Harbor to Hoyt Lakes and the coal-fired generation units located at Taconite Harbor.

MP agreed to dedicate electric service from the Taconite Harbor units to the former Erie Mine Site (or at MP's consent, elsewhere in Hoyt Lakes where service can be taken from the 138 kV transmission line) at a special rate to facilitate future development in the Hoyt Lakes area.<sup>1</sup>

The dedication of up to 25 MW reflected the gap forecasted between the accredited capacity of the Taconite Harbor generating station and the amount of available transmission from the units.

On May 9, 2003, MP filed a petition for approval of the current EMSS.

The current EMSS was approved by the Commission on August 20, 2003. Part of the rationale for the current EMSS was to encourage the development of the former Erie Mine Site near Hoyt Lakes, Minnesota, by providing a special rate for power from the Taconite Harbor units for development at the site. The available transmission from the Taconite Harbor units is not enough to support all of the generation units' accredited capacity. The corresponding excess capacity of 25 MW is, therefore, available for local load only. The current EMSS has a maximum of 25,000 kW available to all customers, corresponding to the excess capacity of the Taconite Harbor units, and any eligible customer must take at least 2,000 kW of service from MP's 138 kV transmission line by January 1, 2008.

On November 20, 2007, MP filed its request for approval of an electric service agreement (current ESA) between itself and Mesabi Nugget.

On February 20, 2008, the Commission issued an Order approving the current ESA.<sup>2</sup>

On November 12, 2013, the Commission concluded that MP's proposal to remove Taconite Harbor unit 3 from Minnesota Power's system by the end of 2015 is reasonable.<sup>3</sup>

Under the current EMSS, service was required to start on or before January 1, 2008, and the maximum term agreed upon with the state agencies described above was six years. As a result, service under the current EMSS expired on December 31, 2013.<sup>4</sup>

A few days after filing for approval of the proposed ESA, MP filed a petition for approval of a new EMSS on February 24, 2014.

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<sup>1</sup> Source: the portion of the State Master Agreement filed by MP in Docket No. E015/M-03-717.

<sup>2</sup> Commission's February 20, 2008 Order Approving Electric Service Agreement as Conditioned and Clarified, Docket No. E015/M-07-1456.

<sup>3</sup> 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.

<sup>4</sup> Source: MP's response to the Department's Information Request No. 1 in Docket No. E015/M-14-166.

### III. DEPARTMENT ANALYSIS

In accordance with its review of this type of filing, the Department evaluates whether the proposed revised ESA would result in rates that are unreasonably preferential, prejudicial, or discriminatory.<sup>5</sup>

In response to discovery from the Department requesting MP to provide its analysis showing that the proposed revised ESA would not result in rates that are unreasonably preferential, prejudicial, or discriminatory, MP stated:<sup>6</sup>

The Large Power ("LP") portion of Mesabi Nugget's service under the proposed ESA would be provided under the terms and conditions of a standard rate (the LP Service Schedule) that is available to all customers who meet the requirements of this Commission-approved rate. As discussed in Section III of the February 20, 2014 Petition, the customized provisions of the Mesabi Nugget ESA are consistent with those made available to similarly situated customers. Thus, the LP provisions of the proposed ESA are not unreasonably preferential, prejudicial, or discriminatory.

The proposed Erie Mine Site Service Schedule ("EMSS Schedule"), which would be used to serve part of Mesabi Nugget's load, was filed by Minnesota Power in Docket No. E-015/M-14-166. 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 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).

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<sup>5</sup> As required by Minnesota Statute Section 216B.03.

<sup>6</sup> Source: MP's response to the Department's Information Request No. 4.

Regarding customers in the applicable area for the EMSS Schedule, Minnesota Power is not aware of any other customer except Mesabi Nugget with electric service requirements of at least 2,000 kW that is or will be located in such area in 2014 when the EMSS Schedule would again be made available. PolyMet Mining, the only other potentially eligible customer, voluntarily discontinued EMSS service and has not expressed interest in restarting service under the EMSS Schedule.

The proposed EMSS Schedule also would not result in rates that are unreasonably prejudicial. The incremental energy pricing mechanism protects other Minnesota Power customers from negative impacts. Taconite Harbor generation fuel costs associated with EMSS service and the incremental cost of non-Taconite Harbor energy supply used for the EMSS Schedule would be subtracted from the total cost of fuel in Minnesota Power's fuel clause adjustment<sup>1</sup> as "fuel cost recovered through intersystem sales."

While the Department does not object to the Large Power portion of Mesabi Nugget's service under the proposed revised ESA, the Department requested further information from MP regarding the proposed EMSS tariff, in Docket No. E015/M-14-166. The Department intends to review MP's responses in that docket to assess whether MP met its burden of proof to show as reasonable that service to Mesabi Nugget starting from whatever appropriate start date the Commission decides in that case until MP retires Taconite Harbor.

Finally, the Department notes that MP states the following on page 10 of the instant filing:

The most important component of this Agreement from Minnesota Power's perspective is Mesabi Nugget's commitment to purchase all of its electric service requirements for its iron nugget and mining facilities near Hoyt Lakes, Minnesota from Minnesota Power through at least 2023.

Since Mesabi Nugget has already committed to purchase all of its electric service requirements from MP through at least 2017 under the current Commission-approved ESA, without any right of prior termination, the Department requests that MP show in its reply comments the monetary benefits to MP's other customers of the commitment to take service through 2023, including information about Mesabi Nugget's alternative resources.

In addition, MP should discuss the feasibility of using the Area Development Rate Plan in Minn. Stat. 216B.161 in this situation.

#### **IV. DEPARTMENT RECOMMENDATION**

The Department recommends that MP provide justification for its EMSS tariff, along with providing the incremental monetary benefit to MP's customers of a commitment from Mesabi Nugget to take service from MP for the period 2017 through 2023.

In addition, MP should discuss the feasibility of using the Area Development Rate Plan in Minn. Stat. 216B.161 in this situation.

The Department intends to provide additional comments after reviewing this information.

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## **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  
Comments**

**Docket No. E015/M-14-155**

**Dated this 31<sup>st</sup> day of March 2014**

**/s/Sharon Ferguson**

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