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TRADE SECRET DATA EXCISED

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December 1, 2016

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

**RE: In the Matter of a Petition for Approval of an Amended and Restated Electric Service Agreement Between United States Steel Corporation and Minnesota Power Docket No. E015/M-16-836**

Dear Mr. Wolf:

Please find attached for filing with the Minnesota Public Utilities Commission ("Commission") Minnesota Power's Reply Comments in the above Docket.

Yours truly,

A handwritten signature in black ink that reads "David R. Moeller".

David R. Moeller

jmn  
Attachment

STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of a Petition for Approval of  
an Amended and Restated Electric Service  
Agreement Between United States Steel  
Corporation and Minnesota Power

Docket No. E015/M-16-836

**REPLY COMMENTS  
MINNESOTA POWER**

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Minnesota Power has reviewed the Initial Comments filed by the Department of Commerce (“Department”) on November 10, 2016 regarding a Petition for Approval of the Electric Service Agreement (“Agreement”) with United States Steel Corporation (“US Steel”) and offers these Reply Comments.

**I. Review of Department’s Conclusion and Recommendation**

Minnesota Power notes and appreciates the Department timely conclusion that all but one of the provisions of the ESA is in the public interest (the “Provision”).<sup>1</sup> Minnesota Power also notes that the Department does not recommend rejecting the Provision; rather, they acknowledge requiring additional information before drawing a conclusion at this time. While acknowledging the discussion points and the rationale brought forth in the Department’s Initial Comments, Minnesota Power does not view the Provision as preventing the Commission from approving the Agreement at this time as written. Indeed, approval of the Agreement as filed with the Petition at this time will not necessarily lead to the Provision having an immediate impact to US Steel, Minnesota Power, or any other customer as the application of the Provision is [TRADE SECRET DATA EXCISED] leading Minnesota Power to expect that it will not be applied in 2017. Additionally, the Provision is exclusive of other terms and conditions of the Agreement, and as such approval of the Agreement as filed at this time will not result in other terms and conditions of the Agreement having an immediate impact to US Steel, Minnesota Power or any other ratepayer. Moreover, [TRADE SECRET DATA

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<sup>1</sup> Minnesota Power and US Steel maintain the details of the Provision are competitive business information and should remain Trade Secret in accordance with the Commission’s policies and procedures and Minnesota Power’s initial trade secret justification that accompanied the Petition.

**EXCISED]** in the application of the Provision would create a broader response that in scope would naturally be deeper than the review of an electric service agreement. Finally, approval of the Agreement as filed at this time will not set a precedent as the Commission has supported similar contract provisions in other dockets, and Minnesota Power has agreed that similar terms and conditions are available to all Large Power (“LP”) customers who make similar commitments to Minnesota Power.

To those points, as discussed further below, Minnesota Power respectfully requests that the Commission find the entire Agreement is in the Public Interest and approve the Agreement as filed in this Docket, thus allowing both US Steel and Minnesota Power to realize the other benefits negotiated in the Agreement as soon as possible following Commission approval. If and when the Provision takes effect, Minnesota Power will submit a compliance filing with additional information on the Agreement and US Steel’s operations and any potential impacts and benefits for other customers in this Docket.

**II. The Provision is conditional and is not anticipated to be applicable in 2017**

As indicated in the Direct Testimony of Minnesota Power witness Michael Perala in Docket No. E015/GR-16-664, **[TRADE SECRET DATA EXCISED]**. The 2005 Agreement and the proposed Agreement similarly address the costs of facilities and infrastructure to serve the combined facilities under a single contract; a fact unchanged by operating level at one facility or the other. Thus, Commission approval of the entire Agreement at this time will provide all of the benefits contemplated by Minnesota Power and US Steel when entering into the Agreement, based on US Steel’s current operating expectations, in such a way that other ratepayers shall not be negatively affected by a potential application of the Provision. Indeed, if and when the Provision applies, the **[TRADE SECRET DATA EXCISED]** would benefit all Minnesota Power customers. To the extent the Commission deems it necessary, Minnesota Power agrees with US Steel’s recommendation to limit the application of the Provision consistent with other utility and customer rate limitations under Chapter 216B, recognizing that Minnesota Power sought approval of the Agreement under Minn. Stat. § 216B.05, subd. 2a.

**III. The Provision is exclusive of other terms and conditions of the Agreement.**

To the best of Minnesota Power's knowledge, and as presumably supported by the Department's Initial Comments, the Provision does not impact any other provision of the Agreement. Other features of the Agreement would be calculated and incorporated for US Steel essentially the same way they are now and the same way they are for all other similarly situated customers, and the application of the other terms of the Agreement would not be affected by a Commission decision to approve the Agreement.

**IV. Sales Forecast Changes Would Create a Broader Response**

One common acknowledgment of load forecasting, accepted by Minnesota Power as well as other utilities and stakeholders, is that conditions change. This evaluation that will take place in the Rate Case and the appropriateness of Minnesota Power's proposed test year will naturally include an analysis of this Agreement and any other potential customer changes that impact revenue requirements. While Minnesota Power currently assumes that **[TRADE SECRET DATA EXCISED<sup>2</sup>]**.

Should Minnesota Power's sales forecast change significantly while the Rate Case is pending, **[TRADE SECRET DATA EXCISED]**. Minnesota Power would need to submit updated sales forecast information and revenue schedules reflecting greater MWh sales, as has happened when customer operations have significantly changed during prior rate cases,<sup>3</sup> and the review of the changed landscape during the Rate Case process, **[TRADE SECRET DATA EXCISED]** could then be accomplished amid a corresponding broader update of proposed rates.

Similarly, should Minnesota Power's sales forecast change significantly after the Rate Case, **[TRADE SECRET DATA EXCISED]** it is conceived that Minnesota Power's proposed Annual Rate Review Mechanism, as described in the direct testimony of Minnesota Power witness Marcia Podratz, would capture the increase in revenue brought about by the increase in MWh sales and would then lead to a rate adjustment to

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<sup>2</sup> **[TRADE SECRET DATA EXCISED]**.

<sup>3</sup> *See, for example*, Docket No. E015/GR-94-001, Order dated November 22, 1994 (Minnesota Power filed a Motion to Reopen the Record for the reopening of National Steel Pellet Company – the predecessor to Keetac) and Docket No. E015/GR-09-1151 (Minnesota Power increased its sales forecast for industrial and other customers due to improved economic conditions. See April 29, 2010 Rebuttal Testimony of Julie Pierce, Peter Seeling, and Marcia Podratz).

incorporate the changed circumstances brought about by the change in sales, [**TRADE SECRET DATA EXCISED**] resulting in significant benefits to Minnesota Power's customers and the utility alike.

If significant changes in customer operations and sales levels occur, Minnesota Power will provide the appropriate data and analysis in transparent fashion to allow the Department, the Commission, and other stakeholders to render judgment on the appropriateness of Minnesota Power's cost structure, including the Agreement, the sales forecast, and other relevant information and costs. A Commission decision to approve the Agreement now will not change or alter this process, and due to the exclusivity of the Provision in relation to other terms and conditions of the Agreement, as well as to Minnesota Power's agreement to submit a compliance filing with information on the Provision in this Docket, a Commission decision to approve the Agreement as written at this time should not impact the ability of the Commission to find that approving the entire Agreement is in the Public Interest. As noted in the Petition, the [**TRADE SECRET DATA EXCISED**] would benefit all Minnesota Power customers.

#### **V. Past Commission Decisions**

As stated in DOC IR 2, which was included as Attachment 2 in the DOC Reply Comments, several of Minnesota Power's current and past electric service agreements have contained combined billing features and provisions applicable to the customers' unique situations. The Provision is similar in intent with other concepts of combined contracts that have been approved by the Commission as being in the Public Interest. Some of these contract features include the common use of the Allowance for Scheduled Maintenance, complementary loads combined under a similar contract, joint facility usage of energy or curtailability provisions applied to multiple sites through a single contract. Overall these contract features provide benefits to these LP customers who have the greater degree of load variability and diversity in a combined contract than would be normally seen in single separate contract, while still having the structure of the combined contract supporting the cost of serving the customer load through the minimum billing demand structures of that contract and other rate design components that are unchanged with this Agreement. This is not, however, to say that US Steel could [**TRADE SECRET DATA EXCISED**]. Mr. Perala's testimony in the rate case that the

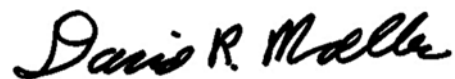
Agreement “optimizes the operating synergies between the two U.S. Steel facilities”<sup>4</sup> refers to the Agreement as a whole. As Minnesota Power stated in its initial petition in this Docket “the Agreement further optimizes the operating synergies between the two US Steel facilities by continuing to combine electric service under a single contract as initially reflected in the 2005 Agreement with most of the 2005 Agreement provisions carried forward.”<sup>5</sup> As evidenced by other recent Commission decisions, unique contract features within an agreement have been adopted that are customized to the individual customer operation but when taken as part of an overall Agreement have been deemed to be consistent with the Public Interest. Minnesota Power firmly believes that the Provision, and the Agreement in its entirety, are consistent with the public interest.

## **VI. Conclusion**

Minnesota Power appreciates the opportunity to address the comments brought forth by the Department, and respectfully requests that the Commission find approval of the Agreement to be in the Public Interest and thus approve the entire Agreement as filed.

Dated: December 1, 2016

Respectfully submitted,



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<sup>4</sup> *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota*, Commission Docket No. E015/GR-16-664, DIRECT TESTIMONY OF MICHAEL A. PERALA, at 18:17-18.

<sup>5</sup> *Petition*, pg. 6.

**CERTIFICATE OF SERVICE**

I, Jodi Nash, hereby certify that on the 1<sup>st</sup> day of December, 2016, on behalf of Minnesota Power, I electronically filed a true and correct copy of Minnesota Power's Reply Comments in Docket No. E015/M-16-836 to the Minnesota Public Utilities Commission ("MPUC") and the Minnesota Department of Commerce, Division of Energy Resources ("DoC"). The remaining parties on the attached service list were served as indicated.



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Jodi Nash

| First Name  | Last Name  | Email                             | Company Name                          | Address  | Delivery Method    | View Trade Secret | Service List Name      |
|-------------|------------|-----------------------------------|---------------------------------------|--|--------------------|-------------------|------------------------|
| Christopher | Anderson   | canderson@allete.com              | Minnesota Power                       | 30 W Superior St<br><br>Duluth,<br>MN<br>558022191                 | Electronic Service | Yes               | OFF_SL_16-836_M-16-836 |
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| Ron        | Spangler, Jr. | rlspangler@otpc.com        | Otter Tail Power Company    | 215 So. Cascade St.<br>PO Box 496<br>Fergus Falls,<br>MN<br>565380496     | Electronic Service | No                | OFF_SL_16-836_M-16-836 |
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