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Minnesota Senior Federation

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Greater Minnesota Health Care Coalition

VIA ELECTRONIC FILING
December 31, 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 Reply Comments of the Minnesota Citizens Federation Northeast in response to Comments submitted in Minnesota Power's Petition for Energy-Intensive Trade-Exposed (EITE) cost recovery rider (Docket No. E015/M-15-984.)

Sincerely,

Buddy Robinson

Buddy Robinson, Staff Director
Minnesota Citizens Federation Northeast

424 West Superior Street #105 ◆ Duluth, Minnesota 55802 ◆ 218-727-0207 ◆ Email:

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

REPLY COMMENTS OF
Minnesota Citizens Federation Northeast

I. Reply Comments to Iron Mining Association of Minnesota

The Iron Mining Association of Minnesota (IRMA) makes a number of vague references, without any quantified or explanatory evidence, that the proposed rate reduction for the taconite mines would somehow make a big difference in solving their problem of overwhelming competition from low prices from foreign producers:

They state on page 1 that rejection of MN Power's Petition "**could** negatively impact the ability of the industry to maintain competiveness" (emphasis added). On page 3 they state that "A reduction of electric costs, while not the sole solution, **can go** a long way to assure there are jobs in the region…" (emphasis added). IRMA gives no demonstrations, calculations, or even rough estimates that the proposed rate reduction would go even a short way to achieving competitiveness for their industry.

They also state on page 3 that "While we cannot control global economics, Minnesota has to play its part in stabilizing the State's economy." Just how would the proposed rate shift accomplish this? Again, there are no shreds of explanation.

On page 2, IRMA refers to the new Roy Hill mine in Australia, which produces more tonnage than all of the Iron Range combined, at the lowest worldwide price yet. How could a rate reduction amounting to about 50 cents a ton seriously have any noticeable counter-effect against that kind of competition?

On a different point on page 3, IRMA urges the state to "approve electric rates that are more equitable" to their industry. Here, IRMA seems to be making allusions to the notion that currently, LP customers are subsidizing small users; that this is unfair to them; and therefore correction via the proposed rate shift is in order. MN Power makes the same assertion in their Petition for this docket.

As stated in our initial comments, the Citizens Federation, in previous MN Power general rate cases, has provided expert economist Cost Of Service Studies which are based on Marginal Cost Theory (coupled with Ramsey Pricing principles), which effectively contradict the results of the Cost Of Service Studies presented by MN Power, which are based instead on Embedded Cost Theory. The studies done by MN Power, using Embedded Cost Theory, generate results which say that the large industrial users are subsidizing the small users. The studies done for and submitted by our organization, based on Marginal Cost Theory, however, generate results which say the opposite: That the small users are subsidizing the large industrial users.

The dockets in question are: E015/GR-78-514 (1978); E015/GR080-76 (1980); E015/GR-81-250 (1981); and E-15/GR-87-233 (1987). These studies submitted by our organization were prepared and defended by Ronald Knecht. He has served as Senior Economist on the California PUC, and later as Senior Economist for the Nevada PUC. Currently, he is Controller for the State of Nevada. At the time of the rate cases cited above, our organization had a slightly different name: MN Senior Federation Northeast. We were awarded intervenor compensation several times by the PUC, in recognition of the value of the information we contributed to the cases.

The fact that the LP customers and MN Power repeatedly claim that residential and small users are being unfairly subsidized by the large users **has been repeatedly contradicted by the fact that the PUC has consistently approved rate structures which it deems to be just and reasonable.** If the PUC has been in the wrong, and the assertion by the LP customers and MN Power has real merit, then they should have been able to successfully pursue relief in the courts long before now.

II. Reply Comments to Large Power Intervenors (LPI)

In a similar fashion to IRMA, the LP intervenors give several vague statements about the effects of the proposed rate reduction for them:

(Page 5) It would be "a commendable **first step** in improving the competitiveness of electric rates for EITE industries" (emphasis added);

(Page 9) "While the ECC does not completely remedy the situation of uncompetitive EITE rates, it is a **good first step**" (emphasis added);

(Page 10) " ECC will not by itself fully address the problem of uncompetitive rates, but **it is an important step",** and "a **partial resolution to this problem** via application of the ECC" (emphases added);

(Page 12)"The ECC is not perfect - it is not the silver bullet to competitive pressures or to uncompetitive electric rates. …..,the ECC is **part of a broader solution and a solid first step** in moving towards more competitive electric rates" (12, emphasis added).

Again, there are no figures, no calculations, no explanations to flesh out just how the rate reduction would serve as a "first step." And, just what are the other "steps" that are needed? Likewise, there is no explanation or even listing of what are the other parts of the "broader solution" that is referred to.

The LP intervenors discuss their electric rates in contrast to those in other states. Yet even if they had the lowest industrial rates in the US, it still wouldn't make enough of a dent; perhaps a little over 10% of what they need in reduction of their overall costs in order to compete. There is no information presented on how the LP intervenors' electricity costs compare to that of their competitors in other countries.

The LP intervenors stress something which is very important for the PUC to consider, namely a critical phrase in the 2015 statute, which is: **"to ensure competitive rates."** What does that mean? The Legislature did not define it, and thereby placed the PUC in a strange predicament, essentially an impossible situation. Apparently, the legislature wants the PUC to come up with its own definition.

So, exactly what is the phrase "competitive rates" supposed to mean? We can think of two answers: (1) Electric rates which are no higher than what their foreign competitors pay for their electricity; or (2) Electric rates which are low enough so that the LP customers' total production costs are no higher than the total production costs of their competitors.

Suggestion (1) above, if implemented, would not ensure a good competitive stance for the LP intervenors, as explained earlier. Suggestion (2) above is absurd, on principle and in terms of simple math. The LP intervenors seem to imply that for them, “competitive rates” means some kind of reduction of any amount in electric expense, regardless of whether it would play any realistic part in enabling them to meet their foreign competition. In other words, “competitive rates” simply means some degree of reduction from whatever they are paying now, period. Or perhaps in their minds, given their overall problem of total production costs, a true “competitive electricity rate” would mean getting it for free? Yet even if they paid nothing for electricity, it would not solve the structural problems in their worldwide market.

III. Reply Comments to Minnesota Forest Industries (MFI)

Like the taconite industry, the paper industry faces a severe problem of a glut of production, and difficulty to compete with foreign companies. However, unlike the taconite industry’s problem which smacks of a boom-bust cycle (albeit a more severe and prolonged bust than before), the paper industry faces a permanent problem of on-going decline in the use of paper worldwide, as digital information gradually replaces a large portion of printed information.

The title of an Oct. 31, 2013 Minneapolis Star Tribune article sums it up well: “<u>As society sheds paper, an industry shrinks</u>.” Reporter Adam Belz wrote: “North American demand for three types of coated and supercalendared paper -- the shiny magazine and advertising paper made at three of Minnesota's four big paper mills -- has fallen 21 percent in the past decade, according to the Pulp and Paper Products Council.” He added that “Companies have closed 117 American mills since 2000, according to the Center for Paper Business and Industry Studies at Georgia Tech University. Some 223,000 industry jobs have gone away in that time, including 3,800 jobs in Minnesota.“ And despite industry cutbacks, “demand is falling too fast for the cutbacks and consolidation to keep up.”

The comments from MFI point out that they previously had lower electric rates than other paper plants, but have lost that advantage. They do not claim that they now pay more for electricity than their competitors. And, as their comments point out on page 2, they have persuaded the federal government to impose some tariffs on foreign paper. MFI states on page 1 that the proposed electric rate reduction is “vital to the competiveness of Minnesota’s forest products industry.” MFI gives some details of the decline in demand for its products. But, how much of this is due to being undersold by foreign companies, and how much is due to the overall shrinking of the worldwide market for paper? They are silent on that question.

On page 2, they state that electricity is 25% of their production cost. Therefore, a 4.7% reduction of their electric bill only saves 1.175% of their total cost. As in the case of the taconite companies, that is nowhere near enough a reduction to deal with their immediate problem of foreign competition, let alone the continuing decline in worldwide demand for *anybody’s* paper products.

IV. Conclusion

The comments of the Iron Mining Association of MN, Large Power Intervenors, and Minnesota Forest Industries add no useful information to the record to argue the notion that the proposed reduction for EITE customers would have anything other than a negligible impact on their ability to succeed against their worldwide competition.