State of Minnesota
Before the Public Utilities Commission

Dan Lipschultz	Commissioner
Matt Schuerger	Commissioner
John Tuma	Commissioner
Katie Sieben	Commissioner

In the Matter of the Petition for Approval of Minnesota Power's Industrial Demand Response Product

Docket No. E015/M-18-735

Reply Comments of the Citizens Utility Board of Minnesota

The Citizens Utility Board of Minnesota ("CUB") respectfully submits these reply comments in response to the January 1, 2019 notice issued by the Minnesota Public Utilities Commission ("PUC" or "the Commission") regarding Minnesota Power's ("the Company") Petition for Approval of an Industrial Demand Response ("DR") product. CUB has reviewed and considered the comments of other parties in this docket and appreciates the perspective provided in their analysis. Based on our analysis and the additional perspectives provided by other stakeholders in this docket, CUB is still concerned with the ability of this DR product to save customers money and respectfully recommend the Commission deny this petition

I. Background

In Minnesota Power's 2016 Integrated Resource Plan, the Commission ordered the Company to "propose a demand-response competitive bidding process"[1] Minnesota Power then began a bidding process for 150 MW of DR. This process led to only 96 MW of proposed DR that the Company deemed to not be least-cost for customers and did not move forward with this program.[2] In Minnesota Power's most recent rate case, the Commission ordered the Company "to develop a demand response rider and corresponding methodology for cost recovery, based on stakeholder input, for submission to the Commission."[3] In Minnesota Power's Petition for Approval of the Energy*Forward* Resource Package, the Commission further ordered the Company to "continue to develop, based on stakeholder input, a demand response rider and corresponding methodology for cost recovery."[4] CUB appreciates the work of the Company and the Commission in their effort to create a demand response product with the goal of saving customers money. CUB reiterates our support for DR resources that are cost-effective and translate into savings for all customers.

[1] Minnesota Public Utilities Commission Order Approving Resource Plan with Modifications. Docket No. E015/RP-15-690
[2] Petition for Approval of the Energy Forward Resource Package. Docket No. E015/AI-17-568
[3] Minnesota Public Utilities Commission Order. Docket No. E015/16-664
[4] Order Approving Affiliated Interest Agreements with Conditions. Docket No. E015/AI-17-568

The resulting product provides a great amount of information for stakeholders and the Commission to understand the interruptible load DR products that Large Power Customers in Minnesota Power's service territory would be willing to accept. CUB recognizes the fine line Minnesota Power is walking in creating a DR product with the goal to save customers money while also compensating participating customers fairly. While the Commission did require Minnesota Power to submit a DR tariff for consideration, that does not mean the resulting product must be accepted nor does it mean the additional resource provided by a DR product is needed at this time. As we saw with Minnesota Power's DR competitive bidding process, if the resulting product is not the least-cost resource option for customers, the Company should not move forward with the resource. This petition also falls short in that the Company has not provided enough information to prove that this is a least-cost resource as the Company has not demonstrated that this product will avoid or defer investment into peaking capacity. CUB recommends the Commission wait to accept Minnesota Power's DR petition until their upcoming Integrated Resource Plan where the Commission and Stakeholders can review all resources and ensure the correct level and least-cost DR program is chosen to protect Minnesota Power customers.

II. Cost of program

CUB would like to correct an error from our initial comments. CUB had misstated the cost to retail customers by assuming a cost of $10.6 million total over ten years for Product B, which led to incorrectly comparing the cost of the program to the projected cost of peaking energy over the ten-year period of the proposed DR product in the Customer Benefit section in our initial comments. Based on further analysis and discussion with the Company and other stakeholders, CUB realized the cost of Product B is much higher. Product B at full participation would cost $12.6 million a year and $126 million total to support the $7,000/MW-Month Demand Credit for Product B. The sole reasoning for setting the price at $7,000/MW-Month seems to be that it is less expensive than a comparable generation resource and was made through an agreement between the Company and Large Industrial Customers without any basis proving that this is the correct price for this type of resource. CUB is skeptical of a DR program that costs customers $126 million over ten years when it is unclear that this resource is needed. CUB had compared the total cost of the program with the avoided capacity costs and avoided energy costs to show that customers do not receive any benefits through a reduction on their bills from this program if the DR capacity is not avoiding or deferring additional investments from the Company.

a. Avoided capacity

This program would impact customer bills in a couple different ways. First, customers would see an increase on their bills from the proposed Demand Credit that could increase a Residential customer's monthly bill by up to 2.1% depending on the cost recovery method.[5] According to the Office of the Attorney General ("OAG"), this is higher than the increase from Minnesota Power's most recent rate case.[6] Minnesota Power asserts that customers will save $4.6 million through avoided

[5] Petition for Approval of Minnesota Power's Industrial Demand Response Product. Docket No. E015/M-18-735, p. 27.

[6] Initial Comments of the Office of the Attorney General. Docket No. E015/M-18-735

capacity costs as the Demand Credit for Product B is less than the cost of CT generation. For Product B to save non-participating customers money, the product must provide more value than just being less expensive than a hypothetical generation resource. It must also avoid or defer the need for investment in that generation resource. The responsibility is on the Company to prove that there is a need for additional resources on its system and Minnesota Power did not meet that obligation in this filing. Minnesota Power's most recent resource plan did not identify any need for peaking resources other than 150 MW of industrial DR.[7] Minnesota Power currently has 250 MW of emergency DR capacity at a much lower cost.[8] Furthermore, the Commission recently approved Minnesota Power's 50 percent stake in the Nemadji Trail Energy Center combined-cycle natural gas power plant.[9] With the purchase of a new combined-cycle natural gas power plant combined with the lack of need for any additional peaking generation above the 150 MW of DR in their most recent resource plan, CUB is very skeptical the Company is in need of any additional capacity, particularly at the cost of $126 million to customers. This is particularly concerning because if the Company is long on capacity, the avoided capacity benefits from this program are zero.

a. Avoided energy

Customers would then see a slight reduction on their bills from lower fuel costs when the Company calls a DR event and energy is curtailed. According to Fresh Energy, the average price for the most expensive 600 hours on Minnesota Power's LMP from 2015 through Q2 2018 was $56.89/MWh.[10] From a pure avoided cost of energy perspective, this is a good deal for customers as the Physical Interruptible Credit is $26.89/MWh less. But, when the cost of the Demand Credit is factored in, non-participating customers lose out. Customers do not see any benefit from avoided capacity savings unless there is a demonstrated need for additional capacity to meet customer demand. Minnesota Power has not demonstrated a need for this resource while simultaneously requesting a comparable resource that would cost customers $126 million. Spending $126 million for the opportunity to pay $30/MWh instead of the average cost of peaking energy cited by the Company of $41/MWh is a terrible bet. At full usage, this program would only save customers $1 million a year and, as CUB and the OAG pointed out in Initial Comments to this docket, it is not guaranteed that the Company will utilize this product to its full capability which would eat in to those minimal energy savings. Minnesota Power customers would be better off paying the LMP for 600 hours than paying for this product. By moving forward with this proposal, Minnesota Power customers would be essentially paying for a new CT plant without any supporting evidence showing this is needed to meet demand for Minnesota Power customers. Without avoiding or deferring additional investments, customers would be better off without the DR program as proposed.

III. Cost reallocation

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[7] Office of the Attorney General Request for Information 10. Docket No. E015/M-18-735

[8] Office of the Attorney General Request for Information 8. Docket No. E015/M-18-735

[9] Order Approving Affiliated Interest Agreements with Conditions. Docket No. E015/AI-17-568

[10] Initial Comments of Fresh Energy. Docket No. E015/M-18-735

CUB reiterates its position that this DR petition represents a massive reallocation of ratepayer costs onto non-industrial customer classes for very little benefit. First, as discussed above, if Minnesota Power is not in need of the additional capacity to meet customer demand, then this program will not be saving customers money and non-participating customer funds will be transferred directly to participating customers for no benefits in return.

Second, participating customers receive significantly more benefits than non-participating customers, regardless of the level of program utilization, through the Demand Credit, Physical Interruptible Credit, and through reduced fuel charges. For example, if participating customers buy-through a majority of the events, they are still benefiting from the program through the Demand Credit. Meanwhile, the direct benefits non-participating customers see through lower fuel charges on their bills and any benefits from avoided capacity will be lost.

Third, CUB is skeptical of the benefits from avoided energy costs as well. CUB agrees with the OAG in that the Company may not have the ability or the willingness to call 90,000 MWhs of economic interruptions each year. Minnesota Power estimates savings from avoided energy of $10 million, which is based on the Company calling the full 90,000 MWhs of economic curtailment each year. As CUB stated in initial comments, each time the Company fails to call the full 90,000 MWhs available for economic curtailment each year, the customer savings from avoided energy costs will continue to fall. If Minnesota Power is unable to scale this program from 0 event hours to 600 event hours in the first year of the program, customers will miss out on avoided energy benefits. This would represent a $126 million investment for customers for very little benefit in return. The only way non-participating customers benefit from this program is through avoided capacity costs, which is unproven at this point, and through lower fuel costs from participating customers curtailing load. If Minnesota Power does not call the full level of events in a given year due to lack of need for peaking energy, or as the OAG suggested, due to pressure from participating customers to not call events, this program would represent a sunk cost for non-participating customers. This sunk cost from non-participating customers would then be transferred directly to participating customers through the proposed Demand Credit.

IV. Conclusion

CUB appreciates the opportunity to provide comments in this docket. CUB reiterates our support for DR programs that are cost-effective and translate to savings for all customers. This proposal offers a bevy of information that is valuable to stakeholders and the Commission in evaluating DR programs moving forward. But, CUB respectfully recommends the Commission deny this petition. In CUB's view, the Company has not provided any evidence that customer bills would be reduced in the short term through lower energy charges or in the long run by avoiding utility investments. Furthermore, this DR product places huge costs on non-participating customers which would be directly transferred to participating customers without ensuring greater benefits in return.

Respectfully submitted, March 13, 2019

/s/ Ben Bratrud

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