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January 22, 2014

VIA ELECTRONIC FILING

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

Re: In the Matter of the Application of Minnesota Power for Authority to
Increase Electric Service Rates in Minnesota
Docket No. E-015/GR-09-1151

Dear Dr. Haar:

Minnesota Power hereby electronically submits its reply comments in the above-referenced Docket. An Affidavit of Service is included.

Please contact me at the number above should you have any questions related to this filing.

Yours truly,

Christopher D. Anderson

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c: Service list



retail service provider.² The City chose to provide retail electric service itself, and entered into a new wholesale electric service agreement with Minnesota Power that contemplated and facilitated the City's retail service to such a high-level retail energy customer. The City did ask Minnesota Power to assist in developing its electric service offering and associated services to Essar, and contracted with Minnesota Power to perform certain functions that Minnesota Power already directly provides its customer base.

A single statement belies the Department's underlying reason for attempting to rewrite the Settlement Agreement in seeking to capture any potential wholesale revenues from Essar. At page 6 of its Comments the Department alleges that Minnesota Power arranged "a highly unusual structure of serving Essar Steel through a wholesale customer, with the effect of charging retail ratepayers (including retail Large Power customers) more than their share of costs and keeping wholesale revenues for Minnesota Power shareholders." As noted above, this suspicion is unfounded based on the facts surrounding electric service to Essar, and such specious attempts to incorporate Essar revenue into the Settlement Agreement can be easily disregarded and denied.

First, Minnesota Power had no control over Essar's location in the City of Nashwauk's service territory. To allege Minnesota Power had any ability to "arrange" the current outcome gives greater credit than reasonably due Minnesota Power and certainly appears offensive to the City of Nashwauk's ability to determine its own course of action with respect to electric service to its customer. Minnesota Power has had a long-standing wholesale electric supply agreement with Nashwauk for the City's small load in northeastern Minnesota. The City and Minnesota Power worked together to modify their wholesale electric service agreement to allow for City service to Essar.

Second, Nashwauk officials realized that Minnesota Power's extensive experience with serving large industrial customers on the Iron Range would be helpful as it took on the daunting task of serving such a large customer -- a customer that overwhelmed the

² The Nashwauk and Lake Country Power service territory agreement was approved by the MPUC in an Order dated May 25, 2007 in Docket No. E106, 280/SA-107-351.

City's own total electric service requirements. The City therefore consulted with and requested Minnesota Power provide certain services – services the City had no experience providing nor the capability to provide considering Essar's unique requirements and considering Minnesota Power already had the personnel and infrastructure in place to provide them.

Third, by the Department's own acknowledgement, there are no meaningful revenues attributable to Essar Steel operation even if Essar activity were to qualify for Margin Impact Analysis. There is no harm to Minnesota Power's retail ratepayers and no wholesale revenues for Minnesota Power shareholders to speak of – either currently or expected in the next year.

Fourth, Minnesota Power and Essar Steel entered into certain contractual arrangements because the Essar Steel industrial site required Minnesota Power build specific high-voltage transmission facilities to enable service at a level meeting Essar's requirements. Facility Construction Agreements (FCA) are typical transmission build-out agreements in the MISO footprint between host utilities and entities with significant power requirements; a similar FCA was developed for Excelsior Energy. Furthermore, the Department was actively involved in the route permit docket for these transmission facilities that the Commission approved on July 29, 2010. See MPUC Docket No. E280/TL-09-512.

Finally, it was public knowledge at the time the Settlement Agreement was entered into that Essar would be located in the City of Nashwauk's service territory. The City of Nashwauk conducted very public RFP processes soliciting wholesale energy providers to partner with in providing electric service. More importantly, the Large Power Intervenors were a signatory to the Settlement Agreement and were well aware of Essar's activities and plans. In fact, the counsel to the Large Power Intervenors also served as counsel to Essar. The Department alleges nefarious machinations after-the-fact to what was plainly public knowledge at the time: that Essar was the City of Nashwauk's retail customer.

The factors described in the preceding paragraphs around the evolution of the City of Nashwauk's service to Essar resulted in numerous agreements between and among the three parties. These agreements have been well documented and categorized at pages 10-12 of the Department Comments. But none of these factors, alone or in sum, rise to qualify any relationship between Minnesota Power and Essar as triggering the margin impact analysis. Plainly, Minnesota Power's involvement with the City of Nashwauk in facilitating Essar Steel development does not in itself qualify this revenue under the margin impact analysis.

More importantly to this analysis, the Settlement Agreement relates solely to fluctuations in Minnesota Powers retail rates, and is triggered only by Large Power revenue changes. Paragraph E.1 of the Settlement Agreement specifically states that Minnesota Power shall file a margin impact analysis with any new or amended Large Power electric service agreement filing when new or changed electric demand is 25 MW or greater. Just because Essar *would* be a Large Power customer were it served by Minnesota Power does not mean the Settlement Agreement terms are triggered. The term "Large Power" is a defined term in Minnesota Power's filed rates with the Commission, and it refers specifically to retail customers. The quote on page 6 of the Department's Comments, describing the components to be included in a Margin Impact Analysis, specifically refers to "gross retail margins resulting from providing service to such customer" (emphasis added). Essar Steel is not a retail customer of Minnesota Power at a connected load requirement of 10 MW or more. That alone disqualifies any Essar revenues from analysis under the margin impact analysis, and no further inquiry is necessary. While the Department goes to great lengths to describe why it believes Essar Steel revenues should be analyzed, the simple fact is that Essar Steel electric load on the City of Nashwauk system fails to qualify for the margin impact analysis under the Settlement Agreement according to these terms. On that basis alone the Department's first question under its analysis in section 3 of its Comments fails, to wit: "Does the margin impact analysis applied to Minnesota Power's service to wholesale customers or is it limited to retail customers only."

The protective measures of the Settlement Agreement put in place a margin impact analysis if Minnesota Power's Large Power customer revenue increased by 25 MW or more during the intervening period before Minnesota Power file its next rate case. The Department cannot rewrite the terms of the Settlement Agreement by trying to fit potential Essar Steel revenues into the qualifying Large Power revenues, nor should it be allowed to expand the parameters of the Settlement Agreement and the margin impact analysis simply because it sees potential large revenues from the Essar Steel project in northern Minnesota.

Finally, the Department describes how certain information it requested was not provided due to the trade secret concerns of the City of Nashwauk and Essar. Minnesota Power facilitated review of as much of the requested information it could in this inquiry. The Department is correct that disclosure may be required in future rate proceedings or resource plan analysis. However, disclosure was not necessary, nor should it be compelled, for purposes of this Docket.

Dated: January 22, 2014

Respectfully submitted,



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STATE OF MINNESOTA)
) ss
COUNTY OF ST. LOUIS)

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

Kristie Lindstrom of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 22nd day of January, 2014, she served Minnesota Power's Reply Comments in Docket No. E015/GR-09-1151 to the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The remaining parties on the attached service list were served as so indicated on the list.

/s/ Kristie Lindstrom

Subscribed and sworn to before
me this 22nd day of January, 2014.

/s/ Jodi Nash

Notary Public - Minnesota
My Commission Expires January 31, 2015

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