



30 west superior street / duluth, minnesota 55802-2093 / fax: 218-723-3955 / www.allete.com

David R. Moeller
Senior Attorney
218-723-3963
dmoeller@allete.com

February 24, 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 Minnesota Power's Petition for Approval of
Modifications to Erie Mine Site Service Schedule
Docket No. E-015/M-03-717

Dear Dr. Haar:

Minnesota Power hereby electronically submits its Petition for Approval of Modifications to the Erie Mine Site Service Schedule. An Affidavit of Service is included.

Please contact me if you have any questions regarding this filing.

Yours truly,

David R. Moeller

kl
Attachments
c: Service list



**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of Minnesota Power's
Erie Mine Site Service Schedule

**PETITION FOR APPROVAL OF
MODIFICATIONS TO ERIE MINE
SITE SERVICE SCHEDULE**
Docket No. E-015/M-03-717

SUMMARY OF FILING

Minnesota Power files a Petition for Approval of Modifications to its Erie Mine Site Service ("EMSS") Schedule to allow Mesabi Nugget to continue to take service under the EMSS Schedule after December 31, 2013. The Petition describes the proposed modifications and rationale for them.

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of Minnesota Power's
Erie Mine Site Service Schedule

**PETITION FOR APPROVAL OF
MODIFICATIONS TO ERIE MINE
SITE SERVICE SCHEDULE**
Docket No. E-015/M-03-717

I. BACKGROUND

Service under Minnesota Power's ("Company") Erie Mine Site Service ("EMSS") Schedule is currently limited to six years, which for Mesabi Nugget Delaware, LLC ("Mesabi Nugget") expired on December 31, 2013. Minnesota Power submits this Petition to the Minnesota Public Utilities Commission ("Commission") to request modifications to the EMSS Schedule that would allow continued service for Mesabi Nugget under the EMSS Schedule. The EMSS Schedule rate is based on the Company's average total cost for its Taconite Harbor Energy Center ("THEC") generating station. Minnesota Power would like to continue offering the EMSS Schedule to Mesabi Nugget, the only customer currently on this rate, for the purpose of encouraging economic development in the vicinity of the former LTV Steel Mining Company Site in Hoyt Lakes, Minnesota. In conjunction with this Petition, on February 20, 2014, in Docket No. E-015/M-14-155, Minnesota Power filed a Petition for Approval of an amended Electric Service Agreement ("ESA") with Mesabi Nugget ("Mesabi Nugget ESA Petition") that incorporates an extension of the contract term and continued application of the EMSS Schedule.

II. PROCEDURAL MATTERS

Pursuant to Minn. Stat. § 216B.16, subd. 1 and Minn. Rule 7829.1300, Minnesota Power provides the following required general filing information.

A. General Filing Information

1. Summary of Filing (Minn. Rule 7829.1300, subp. 1)

A one-paragraph summary accompanies this Petition.

2. Service on Other Parties (Minn. Rule 7829.1300, subp. 2)

Pursuant to Minn. Stat. § 216.17, subd. 3 and Minn. Rules 7829.1300, subp. 2, Minnesota Power eFiles the Petition on the Minnesota Department of Commerce – Division of Energy Resources and the Minnesota Office of the Attorney General – Antitrust and Utilities Division. A summary of the filing prepared in accordance with Minn. Rules 7829.1300, subp. 1 is being served on Minnesota Power’s general service list and Large Power service list.

3. Name, Address and Telephone Number of Utility (Minn. Rule 7829.1300, subp. 4(A))

Minnesota Power
30 West Superior Street
Duluth, MN 55802
(218) 722-2641

4. Name, Address and Telephone Number of Utility Attorney (Minn. Rule 7829.1300, subp. 4(B))

David R. Moeller
Senior Attorney
Minnesota Power
30 West Superior Street
Duluth, MN 55802
218-723-3963
dmoeller@allete.com

5. Date of Filing and Date Proposed Rate Takes Effect (Minn. Rule 7829.1300 subp. 4(C))

This Petition is being filed on February 24, 2014. As set forth below, Minnesota Power requests that the modifications to the EMSS Schedule be effective January 1, 2014 and requests a variance from the 90-day notification requirement under Minn. Rules 7825.3200. Recognizing that any rate change is not effective until Commission approval, Minnesota Power has been billing and will continue to bill Mesabi Nugget under the Large Power (“LP”) Service Schedule, the alternative standard applicable rate schedule, for all of its electric service effective January 1, 2014. If the Commission grants the variance, Minnesota Power will rebill Mesabi Nugget under the EMSS Schedule retroactive to January 1, 2014.

6. Statute Controlling Schedule for Processing the Filing (Minn. Rule 7829.1300, subp. 4(D))

This Petition is made pursuant to Minn. Stat. § 216B.05 and no statutorily imposed time frame for a Commission decision applies to this filing.

7. Utility Employee Responsible for Filing (Minn. Rule 7829.1300, subp. 4(E))

Marcia A. Podratz
Director – Rates
Minnesota Power
30 West Superior Street
Duluth, MN 55802
(218) 355-3570
mpodratz@mnpower.com

8. Impact on Rates and Services (Minn. Rule 7829.1300, subp. 4(F))

The proposed EMSS Schedule modifications will have no effect on Minnesota Power's overall revenue requirement. The additional information required under Minn. Rule 7829.1300, subp. 4(F) is included throughout this Petition.

9. Service List (Minn. Rule 7829.0700)

David R. Moeller
Senior Attorney
Minnesota Power
30 West Superior Street
Duluth, MN 55802
218-723-3963
dmoeller@allete.com

Marcia A. Podratz
Director - Rates
Minnesota Power
30 West Superior Street
Duluth, MN 55802
(218) 355-3570
mpodratz@mnpower.com

B. Variance on Effective Date (Minn. Rule 7825.3200)

Notwithstanding the date of Commission action or the date an Order is issued in this matter, because Minnesota Power and Mesabi Nugget desire that these modifications be effective January 1, 2014, a variance to Minnesota Rule 7825.3200 in this matter is required under Commission precedent. Minn. Rule 7825.3200 requires that utilities serve notice to the Commission at least 90 days prior to the proposed effective date of modified rates. Under Minn. Rule 7829.3200, the Commission shall grant a variance to its rules when it determines that the following requirements are met:

- a. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- b. granting the variance would not adversely affect the public interest; and
- c. granting the variance would not conflict with standards imposed by the law.

Minnesota Power and Mesabi Nugget began negotiations on a revised ESA in May 2013. Due to the collaborative effort to analyze current and future expected Mesabi Nugget operations, develop and negotiate suitable contract terms, and obtain internal corporate approvals, the ESA

incorporating continued use of the EMSS Schedule was not executed until February 20, 2014. Enforcement of the 90-day notice would impose excessive financial burden, and delay Mesabi Nugget's ability to achieve the benefits of the new ESA as of January 1, 2014, including the economic benefits of continuing uninterrupted service under the EMSS tariff. Minnesota Power will continue to bill Mesabi Nugget in accordance with its current agreement, recognizing that any rate change is not effective until Commission approval. If the Commission grants the variance for the EMSS Schedule and the Mesabi Nugget ESA effective dates, Minnesota Power will rebill Mesabi Nugget retroactive to January 1, 2014, under the amended EMSS Schedule.

The Commission recently addressed a similar issue in approving the 2013 Amendment¹ to Boise's 2002 ESA and has granted other variances related to agreements with Minnesota Power's other LP and Large Light and Power ("LLP") customers, as listed in the Company's February 20, 2014 Mesabi Nugget ESA Petition on page 9.² In addition, the Commission specifically addressed these issues in the initial 2007 Mesabi Nugget electric service agreement.³

Minnesota Power is not aware of any reason why granting the variance in this instance would adversely affect the public interest. Granting of the variance would also not conflict with standards imposed by law or rules governing the Commission's actions.

III. EMSS SCHEDULE MODIFICATIONS

A. Overview

On May 9, 2003, Minnesota Power filed a Petition for Approval of the EMSS Schedule as an economic development rate for customers in the vicinity of the former LTV Steel Mining Company Site in Hoyt Lakes, Minnesota. The capacity and energy charges for service under the EMSS Schedule are based upon the operating costs of Minnesota Power's Taconite Harbor Energy Center.

¹ Docket No. E015/M-13-1084.

² Docket No. E-015/M-14-155.

³ Docket No. E015//M-07-1456 Order dated February 20, 2008.

On August 20, 2003, the Commission approved Minnesota Power's Petition, and the EMSS Schedule took effect August 1, 2003. Service with a minimum demand of 2,000 kW under the EMSS Schedule was required to commence by January 1, 2008. Mesabi Nugget⁴ and PolyMet Mining Corporation ("PolyMet")⁵ elected service under the EMSS Schedule starting January 1, 2008. PolyMet subsequently stopped taking the EMSS Schedule service due to project delays and switched to the LLP Service Schedule, and PolyMet is not eligible to restart EMSS Schedule service. In this Petition, Minnesota Power requests the following modifications to the EMSS Schedule: removal of the language related to the maximum ESA term, change of the Generation Capacity Charge calculation formula to use the THEC total installed capacity as the rate divisor, and an update of the Generation Capacity Charge for calendar year 2014.

B. Maximum Term for EMSS Schedule

The EMSS Schedule was designed to be applicable only to new industrial, mining or manufacturing customers located at the former Erie Mine Site or, subject to prior written approval of the Company, at any location in or around Hoyt Lakes, Minnesota, where service can be taken from Minnesota Power's 138 kV transmission line, for a contractual agreement of a minimum of one year and a maximum term of six years.

Minnesota Power proposes to eliminate the maximum contractual term of six years in order to allow the one existing customer, Mesabi Nugget, to continue taking service on the EMSS Schedule under the currently applicable conditions. The original intent of the EMSS Schedule was to facilitate and encourage economic development at the Erie Mine Site and in the Hoyt Lakes area. Minnesota Power believes that continuing to offer this rate will benefit Mesabi Nugget by providing a more competitive electric price while it is in a continuing development mode, as well as Minnesota Power and its other customers by providing continued revenue and fixed cost contributions. Mesabi Nugget is in the process of developing a new and exciting commercial technology for the production of iron nuggets. As described further in the Mesabi Nugget ESA Petition, Mesabi Nugget has been working diligently since its first iron nugget production in 2010 to evolve its technology to allow it to produce nuggets economically in today's very competitive global markets. In the time since startup Mesabi Nugget has continued

⁴ MPUC Order dated 02/20/2008 - Docket No. E015/M-07-1456.

⁵ MPUC Order dated 05/25/2007 - Docket No. E015/M-07-221.

to refine and modify its facility in efforts to achieve full production rates at an economic scale. Mesabi Mining LLC was created in anticipation of future mining activities, and this business entity has added milling and filtering equipment in anticipation of future mining activities. Mesabi Nugget has also added oxygen and nitrogen separating equipment on site as a technology and process improvement. It is appropriate for Minnesota Power to continue service to Mesabi Nugget under the EMSS rate as Mesabi Nugget continues to work to optimize and to grow its revolutionary production technology. It is in the best interest of Minnesota Power and its other ratepayers to assist Mesabi Nugget through the challenges it faces while it refines its new production process, which will encourage Mesabi Nugget to maintain and potentially expand its manufacturing facilities in Minnesota.

C. Determination of the Generation Capacity Charge

1. Modification of the Calculation of the Generation Capacity Charge

Minnesota Power proposes a slight modification to the calculation of the EMSS Schedule Generation Capacity Charge. The Generation Capacity Charge is currently calculated as described below.

The revenue requirement equals the sum of:

- The net book value of the Taconite Harbor facilities multiplied by Minnesota Power's allowed retail pre-tax cost of long term debt;
- The Taconite Harbor depreciation and amortization expense;
- The Taconite Harbor property tax expenses; and
- The Taconite Harbor fixed operating and maintenance expense

This is then divided by:

- The Taconite Harbor accredited capacity,

And further increased by:

- Minnesota Power's required reserve capacity to arrive at the generation capacity cost.

And then divided by:

- 12 months, to convert the revenue requirement to the rate in \$/MW-month,

Instead of using total accredited capacity in the calculation, Minnesota Power proposes to use the total installed capacity of the Taconite Harbor station. When the EMSS Schedule was originally implemented, and in the calculation of the Generation Capacity Charge through 2011, the accredited capacity used in the calculation was equal to the total installed capacity (225 MW) of THEC. However, for 2012 and 2013, the accredited capacity amount used in the calculation declined to 205 MW, as a result of transmission system constraints and changes in the requirements for generation capacity accreditation in the Midcontinent Independent System Operator (“MISO”) resource adequacy determination. Although the amount of accredited capacity declined because of area transmission constraints, there is still 225 MW of total installed capacity at THEC, and the excess above the accredited capacity amount is available to serve local customer load in the vicinity of THEC. Meanwhile, the revenue requirement components used in the calculation remain the costs to support the total installed capacity; they were not modified. It is therefore reasonable for the total THEC revenue requirement to be divided by the total installed capacity of THEC available to serve load, rather than by the lower transmission-constrained accredited capacity.

In addition, because the reserve capacity requirement in MISO changes periodically, Minnesota Power requests to revise the tariff slightly to replace the existing “12 percent” language with “the MISO Planning Reserve Margin incorporated in Minnesota Power’s last approved Resource Plan (currently 11.32 percent).”

2. Generation Capacity Charge for Calendar Year 2014

The calculation of the Generation Capacity Charge for calendar year 2014 following the modifications proposed in Section III.C.1 above is included in this filing as Attachment A. If the modification of the calculation is approved, the 2014 rate will be \$12.14 per kW per month.

IV. THE SCHEDULE IS IN THE PUBLIC INTEREST

The purpose of extending the EMSS Schedule is to help keep the electric costs affordable as necessary for the long term viability of the Mesabi Nugget facility, which in turn benefits the regional economy and Minnesota Power's other customers. This is described further on pages 14 through 16 of the Mesabi Nugget ESA Petition.⁶

Mesabi Nugget has faced many challenges since its start-up. The pilot work done by Northshore Mining to refine its pig iron production) process has been very slow and is still incomplete. The innovative technology for this process, called ITmk3, was developed by a Japanese company, Kobe Steel, who is also a minority partner in Mesabi Nugget. The ITmk3 process a coal-based process chosen ten years ago when coal was a cheap reductant does not compare well today in pricing to the natural gas used in other value-added iron production processes. Additionally Mesabi Nugget has not been able to secure required state mining permits to open mining operations, and it has concerns about the long-term availability of economical iron resources in spite of its connections with Magnetation, Inc. at their jointly-owned Mining Resources facility.

If the coal-based iron nugget process currently developed by Mesabi Nugget is proven viable, there is a great opportunity for Iron Range taconite customers and Minnesota Power. This process is considered the most amenable process for Minnesota Power's customers to expand to because it is easier to operate when compared to gas-based Direct Reduced Iron (DRI) and transportation of iron nuggets is far easier than gas-based DRI. With the coal-based nugget process, there is no need to handle molten iron, and the process can be operated in a manner similar to existing pellet machines; therefore, no new equipment will be needed.

The pilot work still continues and is being perfected. It is in the best interest of Minnesota Power to accompany Mesabi Nugget through its challenges with its process by offering the extension of both the EMSS Schedule and Mesabi Nugget's ESA. It is an investment in the future the Company believes it should make. It is doubtful that another entity

⁶ Minnesota Power's Petition for Approval of an Electric Service Agreement Between Mesabi Nugget Delaware, LLC, Mesabi Mining, LLC and Minnesota Power, February 20, 2004, Docket No. E015/M-14-155.

would complete the development of this new iron process if Mesabi Nugget is closed prematurely. Once the process is “shelf ready,” another mining customer could potentially retrofit its existing operation with this technology in future years to improve its long term prospects.

V. REVISED EMSS SCHEDULE TARIFF SHEETS

The revised EMSS Schedule tariff sheets are provided as Attachment B (redline version) and Attachment C (clean version). They include the following proposed modifications:

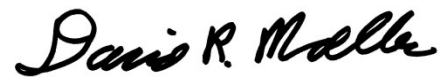
1. Removal of the language related to the maximum term of the Electric Service Agreement of six years,
2. The modification of the determination of the Generation Capacity Charge as discussed in Section III.C above, and
3. The updated Generation Capacity Charge for calendar year 2014.

VI. CONCLUSION

Minnesota Power respectfully requests that the Commission approve 1) the continuation of the EMSS Schedule, with minor modifications and an effective date of January 1, 2014, to provide Mesabi Nugget the opportunity to continue refining its iron nugget process technology, and 2) the EMSS Schedule Generation Capacity Charge for calendar year 2014 based on the new calculation methodology. The modifications are critically important to Mesabi Nugget's long-term economic viability, which is good for all Minnesota Power customers.

Dated: February 24, 2014

Respectfully submitted,

A handwritten signature in black ink that reads "David R. Moeller". The signature is written in a cursive, flowing style.

David R. Moeller
Senior Attorney
Minnesota Power
30 West Superior Street
Duluth, MN 55802
218-723-3963
dmoeller@allete.com

**2014 Calculation of Erie Mine Site Rate
Based on Taconite Harbor Revenue Requirements**

Docket No. E-015/M-03-717

Attachment A

<u>Generation Capacity Price:</u>		<u>Notes:</u>
1 Average Net Plant in Service	\$108,563,830	[Budget End Balance 2013 + Budget End Balance 2014]/2
2 Average Fuel Inventory	\$12,590,248	[Budgeted Fuel Inv. End 2013 + Budgeted Fuel Inv. 2014]/2
3 Average Spare Parts Inventory	\$903,426	[2013 Budget + 2014 Budget]/2
4 Total Book Value	<u>\$122,057,503</u>	Sum of lines 1, 2 and 3
5 Pre-Tax Cost of Long-Term Debt	5.56%	Cost of long term debt in MPUC Docket E015/GR-09-1151
6 Cost of Capital/Investment	\$6,786,397	line 4 x line 5
7 Depreciation Start Date	01/01/02	
8 Book Life (years)	25	
9 Depreciation and Amortization Expense	\$10,083,368	2014 Budget
10 Property Taxes	\$223,604	(Cook County parcel 20-201-3350)
11 Fixed O&M Expenses	\$12,345,371	2014 Budget (Taconite Harbor O&M Expense, including AREA O&M)
12 Total Generation Capacity Revenue Requirement	\$29,438,740	Sum of lines 6, 9, 10 & 11
13 Installed Capacity (MW)	225	Capacity installed at the THEC
14 Total Generation Capacity Cost (\$/MW-month)	\$10,903	line 12 / line 13 / 12 months
15 Generation Capacity Cost Including 11.32% Reserves (\$/MW-month)	\$12,137	line 14 x 111.32% Confirmed 11.32% from 2013 Resource Plan)

MINNESOTA POWER
ELECTRIC RATE BOOK - VOLUME I

SECTION V **PAGE NO.** 38
REVISION 189

ERIE MINE SITE SERVICE

RATE CODES

72

TERRITORY

Applicable to customers located at or close to the former Erie Mine Site near Hoyt Lakes, Minnesota.

APPLICATION

To the electric service requirements of any new industrial, mining or manufacturing Customer(s) located at the former Erie Mine Site or, subject to the prior written approval of the Company, at any other location in or around Hoyt Lakes, Minnesota where service can be taken from the Company's 138 kV transmission line. Service hereunder is limited to Customers with total power requirements of at least 2,000 kilowatts (kW) per Customer and not more than 25,000 kW in total for all customers. Customer and Company shall execute an Electric Service Agreement having a minimum term of one (1) year ~~and maximum term of six (6) years~~ (subject to the early termination option of the Company set forth below). Any service under this Schedule must commence on or before January 1, 2008.

If, at any time after this Rate Schedule becomes effective, Company chooses to retire the Taconite Harbor generating station or convert the Taconite Harbor generating station to a fuel source other than coal, new service under this schedule shall immediately cease to be available, and, commencing on January 1 of the next calendar year after the date of retirement or conversion, any existing service under this rate schedule shall terminate. Company shall, in the event of such a retirement or conversion, provide timely written notice to any existing Customer taking service under this Rate Schedule. Existing Customer(s) shall choose an alternative Rate Schedule or be assigned to an applicable Rate Schedule by the Company.

Service hereunder is subject to Company's Electric Service Regulations and any applicable Riders.

TYPE OF SERVICE

Three phase, 60 hertz, metered at Company's available transmission voltage of 115,000 or 138,000 volts.

Filing Date ~~December 27, 2012~~ February 24, 2014 **MPUC Docket No.** E015/M-03-717
Effective Date January 1, 2014~~3~~ **Order Date** ~~August 20, 2003~~

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

MINNESOTA POWER
ELECTRIC RATE BOOK - VOLUME I

SECTION v **PAGE NO.** 38.1
REVISION 198

ERIE MINE SITE SERVICE

RATE

Shall consist of the following components: A. Generation Capacity Charge, B. Energy Charge, C. Transmission Service Charge, and D. Billing/Customer Charge.

A. Generation Capacity Charge

The Generation Capacity Charge shall be \$~~13.43~~12.14 per kW per month for calendar year 201~~34~~. The Generation Capacity Charge for each subsequent year shall be recalculated annually by December 31 using budget data for the subsequent year. The Generation Capacity Charge shall be the sum of Company's budgeted: i) net book value of the Taconite Harbor facilities multiplied by Company's allowed retail pre-tax cost of long-term debt, ii) Taconite Harbor depreciation and amortization expense, iii) Taconite Harbor property tax expense, and iv) Taconite Harbor fixed operating and maintenance expense. The capital investment and incremental operating and maintenance costs that are recovered through Company's Rider for Arrowhead Regional Emission Abatement (AREA) shall be excluded from the preceding calculations. The above total shall be increased by ~~12%~~the MISO Planning Reserve Margin percentage as incorporated in the Company's most recent Commission approved Resource Plan to account for reserve capacity supply, divided by the Taconite Harbor ~~accredited~~installed capacity in kW, and averaged over 12 months to result in a monthly Generation Capacity Charge to be applied to each kW of Customer's Billing Demand.

B. Energy Charge

The Energy Charge shall be determined monthly based on a combination of the average monthly Taconite Harbor energy cost and Company's hourly incremental energy cost, as follows:

- During hours when at least two of the three Taconite Harbor units are available, the Energy Charge shall be equal to the average monthly Taconite Harbor energy cost.
- During hours when fewer than two of the three Taconite Harbor units are available, the Energy Charge shall be equal to 50% of the average monthly Taconite Harbor energy cost plus 50% of the Company's hourly incremental energy cost.

The Taconite Harbor energy cost for each month shall be the total cost of fuel consumed by the Taconite Harbor units during the month, plus all fixed and variable operating and maintenance expenses not included in the Generation Capacity Charge, divided by the net energy produced by the Taconite Harbor units during the month.

Filing Date ~~December 27, 2012~~February 24, 2014 **MPUC Docket No.** E015/M-03-717
Effective Date January 1, 2014~~3~~ **Order Date** August 20, 2003

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

MINNESOTA POWER
ELECTRIC RATE BOOK - VOLUME I

SECTION V **PAGE NO.** 38.2
REVISION 198

ERIE MINE SITE SERVICE

The Company's hourly incremental energy cost shall include fuel costs and variable operation and maintenance expenses for generating or purchasing the energy, and shall be the highest cost energy after assigning lower cost energy to all firm retail and wholesale customers including all inter-system pool sales which involve capacity on a firm or participation basis, and to all interruptible sales to Large Power, Large Light and Power, and General Service customers.

The Energy Charge shall be applicable to all kilowatt-hours (kWh) of energy taken by Customer in the month.

C. Transmission Service Charge

The Transmission Service Charge shall be equal to the Large Power transmission demand cost determined in Company's latest retail cost of service study approved by the Minnesota Public Utilities Commission (MPUC) as part of a general retail rate case, adjusted to exclude the estimated pre-tax return on equity component of costs associated with the transmission assets acquired from LTV. The Transmission Service Charge shall be applicable monthly to each kW of Billing Demand. This rate shall be \$2.59 per kW per month.

D. Billing/Customer Charge

\$5000/month

ADJUSTMENTS

1. If Customer is taking service from Company at the same location under an Electric Service Agreement or other Company Schedule that includes a Billing/Customer Charge as part of that Agreement or Schedule, then the Customer shall not be billed the Billing/Customer Charge contained in this Schedule.
2. There shall be added to the monthly bill, as computed above, an emissions-reduction adjustment determined in accordance with the Rider for Arrowhead Regional Emission Abatement (AREA).

Filing Date ~~December 27, 2012~~ February 24, 2014 **MPUC Docket No.** E015/M-03-717
Effective Date January 1, 2014~~3~~ **Order Date** ~~August 20, 2003~~

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

MINNESOTA POWER & LIGHT COMPANY
ELECTRIC RATE BOOK - VOLUME I

SECTION V **PAGE NO.** 38.3
REVISION 198

ERIE MINE SITE SERVICE

3. There shall be added to the monthly bill, as computed above, a transmission investment adjustment determined in accordance with the Rider for Transmission Cost Recovery.
4. There shall be added to the monthly bill, as computed above, a renewable resource adjustment determined in accordance with the Rider for Renewable Resources.
5. There shall be added to the monthly bill, as computed above, an Affordability Surcharge determined in accordance with the Pilot Rider for Customer Affordability of Residential Electricity (CARE).
6. There shall be added to the monthly bill the applicable proportionate part of any taxes and assessments imposed by any governmental authority which are assessed on the basis of meters or customers, or the price of or revenues from electric energy or service sold, or the volume of energy generated, transmitted or purchased for sale or sold.

METERED AND MEASURED DEMAND

The Metered Demand in the month shall be the kW measured during the 15-minute period of Customer's greatest use during the month.

The Measured Demand in the month shall be the Metered Demand increased by one kW for each 20 kvar of excess reactive demand where excess reactive demand shall be the amount by which the maximum 15-minute measured kvar during the month exceeds 50% of the first 20,000 kW of metered demand plus 25% of all additional kW of Metered Demand.

BILLING DEMAND

1. Billing Demand in the month is the kW of demand specified in the Customer's Electric Service Agreement.

Filing Date ~~December 27, 2012~~ September 30, 2013

MPUC Docket No. E015/M-03-

 717

Effective Date January 1, 2014~~3~~

Order Date ~~August 20, 2003~~

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

MINNESOTA POWER & LIGHT COMPANY
ELECTRIC RATE BOOK - VOLUME I

SECTION V **PAGE NO.** 38.4
REVISION 198

ERIE MINE SITE SERVICE

2. Company may increase the Billing Demand, at its option, after written notice to Customer, if the Customer's Measured Demand exceeds 110% of Customer's Billing Demand applicable at the time. Customer's increased Billing Demand shall be the sum of the Billing Demand in effect for the previous billing period and the amount by which the Measured Demand exceeds 110% of such Billing Demand. Any increased Billing Demand resulting under this paragraph shall be the Billing Demand for the remaining term of the Electric Service Agreement unless further revised in accordance with this paragraph and/or other terms and conditions of the Electric Service Agreement.

PAYMENT

Bills are due and payable 15 days following the date the bill is rendered or such later date as may be specified on the bill. Payments must be received by Company on or before such due date and shall not be considered as payment received until the funds are usable or collectible by Company. If payment is not received on or before the due date printed on the bill, the bill shall be past due and delinquent.

SERVICE CONDITIONS

1. The rate contemplates that this service will utilize existing facilities with no additional major expenditures. Customer shall pay Company the installed cost of any additional required facilities which are not supported by this rate.
2. Customer shall be responsible for any additional costs imposed on Company's system due to the operating characteristics of Customer's load, including, but not limited to, costs associated with regulation and frequency response (continuous balancing of resources with load to maintain scheduled interconnection frequency at sixty cycles per second) and reactive supply and voltage control (operation of generation facilities to produce or absorb reactive power in order to maintain transmission voltages within generally accepted limits).

Filing Date ~~December 27, 2012~~ September 30, 2013

MPUC Docket No. E015/M-03-

 717

Effective Date January 1, 2014~~3~~

Order Date ~~August 20, 2003~~

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

**MINNESOTA POWER
ELECTRIC RATE BOOK - VOLUME I**

SECTION V **PAGE NO.** 38
REVISION 19

ERIE MINE SITE SERVICE

RATE CODES

72

TERRITORY

Applicable to customers located at or close to the former Erie Mine Site near Hoyt Lakes, Minnesota.

APPLICATION

To the electric service requirements of any new industrial, mining or manufacturing Customer(s) located at the former Erie Mine Site or, subject to the prior written approval of the Company, at any other location in or around Hoyt Lakes, Minnesota where service can be taken from the Company's 138 kV transmission line. Service hereunder is limited to Customers with total power requirements of at least 2,000 kilowatts (kW) per Customer and not more than 25,000 kW in total for all customers. Customer and Company shall execute an Electric Service Agreement having a minimum term of one (1) year (subject to the early termination option of the Company set forth below). Any service under this Schedule must commence on or before January 1, 2008.

If, at any time after this Rate Schedule becomes effective, Company chooses to retire the Taconite Harbor generating station or convert the Taconite Harbor generating station to a fuel source other than coal, new service under this schedule shall immediately cease to be available, and, commencing on January 1 of the next calendar year after the date of retirement or conversion, any existing service under this rate schedule shall terminate. Company shall, in the event of such a retirement or conversion, provide timely written notice to any existing Customer taking service under this Rate Schedule. Existing Customer(s) shall choose an alternative Rate Schedule or be assigned to an applicable Rate Schedule by the Company.

Service hereunder is subject to Company's Electric Service Regulations and any applicable Riders.

TYPE OF SERVICE

Three phase, 60 hertz, metered at Company's available transmission voltage of 115,000 or 138,000 volts.

Filing Date February 24, 2014 **MPUC Docket No.** E015/M-03-717
Effective Date January 1, 2014 **Order Date** _____

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

**MINNESOTA POWER
ELECTRIC RATE BOOK - VOLUME I**

SECTION V **PAGE NO.** 38.1
REVISION 19

ERIE MINE SITE SERVICE

RATE

Shall consist of the following components: A. Generation Capacity Charge, B. Energy Charge, C. Transmission Service Charge, and D. Billing/Customer Charge.

A. Generation Capacity Charge

The Generation Capacity Charge shall be \$12.14 per kW per month for calendar year 2014. The Generation Capacity Charge for each subsequent year shall be recalculated annually by December 31 using budget data for the subsequent year. The Generation Capacity Charge shall be the sum of Company's budgeted: i) net book value of the Taconite Harbor facilities multiplied by Company's allowed retail pre-tax cost of long-term debt, ii) Taconite Harbor depreciation and amortization expense, iii) Taconite Harbor property tax expense, and iv) Taconite Harbor fixed operating and maintenance expense. The capital investment and incremental operating and maintenance costs that are recovered through Company's Rider for Arrowhead Regional Emission Abatement (AREA) shall be excluded from the preceding calculations. The above total shall be increased by the MISO Planning Reserve Margin percentage as incorporated in the Company's most recent Commission approved Resource Plan to account for reserve capacity supply, divided by the Taconite Harbor installed capacity in kW, and averaged over 12 months to result in a monthly Generation Capacity Charge to be applied to each kW of Customer's Billing Demand.

B. Energy Charge

The Energy Charge shall be determined monthly based on a combination of the average monthly Taconite Harbor energy cost and Company's hourly incremental energy cost, as follows:

- During hours when at least two of the three Taconite Harbor units are available, the Energy Charge shall be equal to the average monthly Taconite Harbor energy cost.
- During hours when fewer than two of the three Taconite Harbor units are available, the Energy Charge shall be equal to 50% of the average monthly Taconite Harbor energy cost plus 50% of the Company's hourly incremental energy cost.

The Taconite Harbor energy cost for each month shall be the total cost of fuel consumed by the Taconite Harbor units during the month, plus all fixed and variable operating and maintenance expenses not included in the Generation Capacity Charge, divided by the net energy produced by the Taconite Harbor units during the month.

Filing Date February 24, 2014 **MPUC Docket No.** E015/M-03-717
Effective Date January 1, 2014 **Order Date**

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

**MINNESOTA POWER
ELECTRIC RATE BOOK - VOLUME I**

SECTION V **PAGE NO.** 38.2
REVISION 19

ERIE MINE SITE SERVICE

The Company's hourly incremental energy cost shall include fuel costs and variable operation and maintenance expenses for generating or purchasing the energy, and shall be the highest cost energy after assigning lower cost energy to all firm retail and wholesale customers including all inter-system pool sales which involve capacity on a firm or participation basis, and to all interruptible sales to Large Power, Large Light and Power, and General Service customers.

The Energy Charge shall be applicable to all kilowatt-hours (kWh) of energy taken by Customer in the month.

C. Transmission Service Charge

The Transmission Service Charge shall be equal to the Large Power transmission demand cost determined in Company's latest retail cost of service study approved by the Minnesota Public Utilities Commission (MPUC) as part of a general retail rate case, adjusted to exclude the estimated pre-tax return on equity component of costs associated with the transmission assets acquired from LTV. The Transmission Service Charge shall be applicable monthly to each kW of Billing Demand. This rate shall be \$2.59 per kW per month.

D. Billing/Customer Charge

\$5000/month

ADJUSTMENTS

1. If Customer is taking service from Company at the same location under an Electric Service Agreement or other Company Schedule that includes a Billing/Customer Charge as part of that Agreement or Schedule, then the Customer shall not be billed the Billing/Customer Charge contained in this Schedule.
2. There shall be added to the monthly bill, as computed above, an emissions-reduction adjustment determined in accordance with the Rider for Arrowhead Regional Emission Abatement (AREA).

Filing Date February 24, 2014 **MPUC Docket No.** E015/M-03-717
Effective Date January 1, 2014 **Order Date**

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

MINNESOTA POWER & LIGHT COMPANY
ELECTRIC RATE BOOK - VOLUME I

SECTION V **PAGE NO.** 38.3
REVISION 19

ERIE MINE SITE SERVICE

3. There shall be added to the monthly bill, as computed above, a transmission investment adjustment determined in accordance with the Rider for Transmission Cost Recovery.
4. There shall be added to the monthly bill, as computed above, a renewable resource adjustment determined in accordance with the Rider for Renewable Resources.
5. There shall be added to the monthly bill, as computed above, an Affordability Surcharge determined in accordance with the Pilot Rider for Customer Affordability of Residential Electricity (CARE).
6. There shall be added to the monthly bill the applicable proportionate part of any taxes and assessments imposed by any governmental authority which are assessed on the basis of meters or customers, or the price of or revenues from electric energy or service sold, or the volume of energy generated, transmitted or purchased for sale or sold.

METERED AND MEASURED DEMAND

The Metered Demand in the month shall be the kW measured during the 15-minute period of Customer's greatest use during the month.

The Measured Demand in the month shall be the Metered Demand increased by one kW for each 20 kvar of excess reactive demand where excess reactive demand shall be the amount by which the maximum 15-minute measured kvar during the month exceeds 50% of the first 20,000 kW of metered demand plus 25% of all additional kW of Metered Demand.

BILLING DEMAND

1. Billing Demand in the month is the kW of demand specified in the Customer's Electric Service Agreement.

Filing Date September 30, 2013 **MPUC Docket No.** E015/M-03-717
Effective Date January 1, 2014 **Order Date**

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

MINNESOTA POWER & LIGHT COMPANY
ELECTRIC RATE BOOK - VOLUME I

SECTION V **PAGE NO.** 38.4
REVISION 19

ERIE MINE SITE SERVICE

2. Company may increase the Billing Demand, at its option, after written notice to Customer, if the Customer's Measured Demand exceeds 110% of Customer's Billing Demand applicable at the time. Customer's increased Billing Demand shall be the sum of the Billing Demand in effect for the previous billing period and the amount by which the Measured Demand exceeds 110% of such Billing Demand. Any increased Billing Demand resulting under this paragraph shall be the Billing Demand for the remaining term of the Electric Service Agreement unless further revised in accordance with this paragraph and/or other terms and conditions of the Electric Service Agreement.

PAYMENT

Bills are due and payable 15 days following the date the bill is rendered or such later date as may be specified on the bill. Payments must be received by Company on or before such due date and shall not be considered as payment received until the funds are usable or collectible by Company. If payment is not received on or before the due date printed on the bill, the bill shall be past due and delinquent.

SERVICE CONDITIONS

1. The rate contemplates that this service will utilize existing facilities with no additional major expenditures. Customer shall pay Company the installed cost of any additional required facilities which are not supported by this rate.

2. Customer shall be responsible for any additional costs imposed on Company's system due to the operating characteristics of Customer's load, including, but not limited to, costs associated with regulation and frequency response (continuous balancing of resources with load to maintain scheduled interconnection frequency at sixty cycles per second) and reactive supply and voltage control (operation of generation facilities to produce or absorb reactive power in order to maintain transmission voltages within generally accepted limits).

Filing Date <u> September 30, 2013 </u>	MPUC Docket No. <u> E015/M-03-717 </u>
Effective Date <u> January 1, 2014 </u>	Order Date <u> </u>

Approved by: Marcia A. Podratz
Marcia A. Podratz
Director - Rates

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 24th day of February, 2014, she served Minnesota Power's Petition for Approval of Modifications to Erie Mine Site Service Schedule 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 the Summary as so indicated on the list.

/s/ Kristie Lindstrom

Subscribed and sworn to before
me this 24th day of February, 2014.

/s/ Susan Romans

Notary Public - Minnesota
My Commission Expires January 31, 2015

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	No	OFF_SL_03-717_1
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_03-717_1
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_03-717_1
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_03-717_1
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No	OFF_SL_03-717_1