



AN ALLETE COMPANY

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October 5, 2017

VIA E-FILING

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

RE: 2015-2016 Annual Automatic Adjustment Reports
Docket No: E999/AA-16-523

Dear Mr. Wolf:

Minnesota Power hereby electronically submits its Reply Comments in the above-referenced Docket.

If you have any questions related to this filing please contact me at the number above.

Yours truly,

A handwritten signature in blue ink, appearing to read "C. D. Anderson", written in a cursive style.

Christopher D. Anderson

jmn
Attachments

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

In the Matter of 2015-2016 Electric Company's
Annual Automatic Adjustment Reports

Docket No. E999/AA-16-523

REPLY COMMENTS

I. Introduction

Minnesota Power provides these Reply Comments in response to the Department of Commerce – Division of Energy Resources (“Department”) Review of the 2015-2016 Annual Adjustment Reports (“FYE16 AAA” dated September 13, 2017, in the above-referenced Docket.

This Reply follows the format of the Department’s FYE16 AAA by summarizing the issue and providing the Minnesota Power response.

II. Filing Requirements

A. MINNESOTA RULES

MP’s auditors noted two exceptions where the difference between the “average monthly cost of fuel consumed per ton” and the “average monthly cost of fuel purchased per ton” was greater than 5 percent. MP’s auditors stated that “[MP’s] management explained that this variance is primarily due to the new transportation contract prices with BNSF being higher under the new terms [after January 1, 2016] as compared to the previous contract.” The Department recommends that MP provide a narrative in reply comments explaining and discussing this issue with enough detail to allow the Commission to make a determination regarding the reasonableness of the corresponding energy costs that were charged to MP’s ratepayers.

Company Response:

The increased coal procurement is discussed in Josh Skelton's direct testimony that was filed in Minnesota Power's most recent Rate Case per Docket E015/GR-16-664. Please refer to sections A and B below.

A. Boswell Coal Transportation Agreement

Minnesota Power's Boswell Energy Center ("Boswell") utilizes approximately 4 to 4.5 million tons of coal annually, which is shipped directly from the Powder River Basin ("PRB") to Boswell via the BNSF Railway ("BNSF"). Minnesota Power is a captive customer of BNSF as it is the sole provider of rail service for coal deliveries between PRB and Boswell.

As described in Attachment 1 of Minnesota Power's Fuel and Energy Source Procurement and Energy Dispatching Policies Annual Report filed on September 1, 2015 in Docket No. E999/AA-15-611 pursuant to Minnesota Rule 7825.2800, [TRADE SECRET DATA HAS BEEN EXCISED].

B. Boswell Coal Inventory Strategy

[TRADE SECRET DATA HAS BEEN EXCISED]

XI. ALL RECOMMENDATIONS AND REQUESTS FOR ADDITIONAL INFORMATION

B. ADDITIONAL INFORMATION

Minnesota Power

The Department requests that MP provide a narrative in reply comments explaining and discussing the auditor's report exceptions related to the difference between the "average

monthly cost of fuel consumed per ton” and the “average monthly cost of fuel purchased per ton,” with enough details to allow the Commission to make a determination regarding the reasonableness of the corresponding energy costs (to be identified by MP).

Company Response:

PriceWaterhouseCoopers (PwC) noted a couple exceptions when comparing average cost of fuel purchased and average cost of fuel consumed in their audit report for the 15-16 AAA report.

The Company would agree that the cost of fuel consumed should be equal or relatively close to the cost of fuel purchased if the Company had no beginning fuel inventory, no inventory adjustments due to the results of physical inventory and all fuel was received at the beginning of the month prior to consumptions. However, that is not the case in actuality.

For the exception noted by PwC for the Boswell coal in the month of January 2016, the Company recorded a decrease of 92,419 tons in fuel quantity due to issuances exceeding purchases. The average cost of fuel in the stockpile at the beginning of the month was \$24.81 and the average cost of purchases was \$36.94 (before the inventory adjustment). The final cost of consumed fuel was \$27.17.

For the exception noted by PwC for the Boswell coal in the month of March 2016, the Company recorded an increase of 19,396 tons in fuel quantity due to purchases exceeding issuances. The average cost of fuel in the stockpile at the beginning of the month was \$29.22 and the average cost of purchases was \$36.43 (before the inventory adjustment). The final cost of consumed fuel was \$31.31.

As expected, for both January 2016 and March 2016, the cost of fuel consumed falls between the beginning average cost and the cost of purchases during the month, which appear reasonable.

Dated: October 5, 2017

Respectfully submitted,

A handwritten signature in black ink, appearing to read "C. Anderson", written in a cursive style.

Christopher D. Anderson
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30 W. Superior Street
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STATE OF MINNESOTA)
) ss
COUNTY OF ST. LOUIS)

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

Jodi Nash of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 5th day of October, 2017, she served Minnesota Power's Reply Comments in Docket No. E999/AA-16-523 on the Minnesota Public Utilities Commission and the Minnesota Department of Commerce via electronic filing. The remaining parties were served as noted on the Service List.



Jodi Nash

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_16-523_AA-16-523