

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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David Boyd
Nancy Lange
J. Dennis O'Brien
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

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SERVICE DATE: April 15, 2013

DOCKET NO. E-015/M-13-93

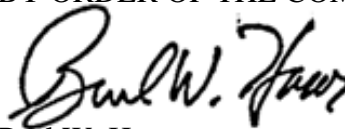
In the Matter of Minnesota Power's Request for Approval of an Amendment to the Electric Service Agreement Between Magnetation, LLC and Minnesota Power

The above entitled matter has been considered by the Commission and the following disposition made:

Approved Minnesota Power's proposed Amendment to the Company's ESA with Magnetation.

The Commission agrees with and adopts the recommendations of the Department of Commerce, which are attached and hereby incorporated into the Order. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION



Burl W. Haar
Executive Secretary



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February 15, 2013

PUBLIC DOCUMENT

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

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/M-13-93

Dear Dr. Haar:

Attached are the **PUBLIC** comments of the Minnesota Department of Commerce, Division of Energy Resources, in the following matter:

Minnesota Power's Request for Approval of an Amendment to the Electric Service Agreement Between Magnetation, LLC and Minnesota Power

The petition was filed on January 31, 2013. The petitioner is:

David Moeller
Attorney
Minnesota Power
30 West Superior Street
Duluth, MN 55802

The Department recommends **approval** and is available to answer any questions the Commission may have.

Sincerely,

/s/ EILON AMIT
Statistical Analyst

EA/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PUBLIC COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. E015/M-13-93

I. BACKGROUND AND SUMMARY OF MINNESOTA POWER'S PETITION

A. BACKGROUND

On August 11, 2011, Minnesota Power (MP or Company) filed with the Minnesota Public Utilities Commission (Commission) a petition for approval of its Electric Service Agreement (ESA) with Magnetation, LLC (Magnetation) in Docket No. E015/M-11-823.

On November 7, 2011, the Department of Commerce (Department) filed comments recommending approval of MP's August 11, 2011 Petition.

On December 9, 2011, the Commission issued an Order approving the petition for an EAS between Minnesota Power and Magnetation.

B. SUMMARY OF MINNESOTA POWER'S PETITION

On January 31, 2013, the Company filed a petition with the Commission for approval of an amendment to its ESA with Magnetation (Amendment). The proposed Amendment changes paragraph 7.B.3 as follows:

The Guaranteed Annual Revenue (GAR) designated in Paragraph 7.B.3 will be replaced with the following:

Calendar Years
Calendar Years [TRADE SECRET DATA HAS BEEN EXCISED]
Calendar Years

Under the pre-amended GAR the Guaranteed Annual Revenues were:

Calendar Years
Calendar Years [TRADE SECRET DATA HAS BEEN EXCISED]
Calendar Years

Magnetation is in the process of increasing its production of iron ore in its plant 2. Therefore, Magnetation requested the Company to increase the level of electric services to its plant 2. In particular, to serve Magnetation's increased electric service needs, MP must install additional distribution facilities.

Under Paragraph 7.a of the ESA, the Company must pay the total service extension costs according to the provisions of the Company's Extension Rules. To cover these extension costs Magnetation must increase its GAR to the levels proposed in the Amendment to the ESA.

II. DEPARMTENT ANALYSIS

A. NECESSARY CONDITIONS FOR APPROVAL OF THE PROPOSED AMENDMENT

The proposed Amendment should be approved only if it is in the public interest. For the Amendment to be in the public interest it must meet the following conditions:

1. No party affected by the proposed Amendment should be worse off as a result of the Amendment.¹
2. The rates under the Amended Agreement must not be discriminatory, namely the rate would be available to any other large power customer of MP facing similar circumstances to those of Magnetation.

¹ The condition that a proposed change would not negatively impact any of the affected parties is called a Pareto-Optimum Condition, named after the famous Italian economist, Vilferde Pareto.

B. ANALYSIS

1. No party affected by the proposed Amendment should be worse off as a result of the Amendment.

The parties that may be affected under the proposed Amendment are the Company, Magnetation, and MP's ratepayers. Since MP and Magnetation agreed on the proposed Amendment and since they are both assumed to act in their own best interest, clearly neither the Company nor Magnetation are worse off as a result of the proposed Amendment. Therefore, it only remains to show that MP's ratepayers are not worse off as a result of the proposed Amendment. I discuss this issue below.

First, the Department notes that the proposed Amendment does not have any impact on MP's rates from the time the proposed Amendment is in effect until MP's next rate case.

Second, MP estimates the cost of the additional facilities at about [**TRADE SECRET DATA HAS BEEN EXCISED**]. In comparison, the incremental revenues resulting from the proposed Amendment are [**TRADE SECRET DATA HAS BEEN EXCISED**] in each of the years 2013 and 2014 and [**TRADE SECRET DATA HAS BEEN EXCISED**] in each of the calendar years 2015 through 2018. These incremental revenues exceed MP's incremental costs by significant amounts. Therefore, the proposed Amendment would result in higher contribution from Magnetation to the Company's total fixed costs. Such higher contributions would not affect MP's remaining ratepayers until MP files a rate case. However, if MP files a rate case prior to 2018, then, all other things remaining the same, the amendment would result in lower overall revenue requirements for MP and therefore, lower rates for MP's other ratepayers than would be the case absent the proposed amendment.

Therefore, the Department concludes that the proposed Amendment meets condition A.1 of these comments.

2. The Rates Under the Amendment May Not Be Discriminatory

Since the proposed Amendment does not change the rates charged to Magnetation and since those rates were previously approved in the Commission Order dated December 9, 2011 (Docket No. E015/M-11-823), the Department concludes that the rates for Magnetation under the proposed Amendment are nondiscriminatory.

III. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

Based on its review and analysis of MP's proposed Amendment, the Department concludes that the proposed Amendment is in the public interest because:

1. No party affected by the proposed Amendment is worse off as a result of it.
2. The rates under the proposed Amendment are not discriminatory.

B. RECOMMENDATION

Based on its conclusions, the Department recommends that the Commission approve MP's proposed Amendment to the Company's ESA with Magnetation.

/ja