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November 9, 2015

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: Minnesota Power's Petition for Approval of an Electric Service Agreement Between Magnatation, LLC and Minnesota Power
Docket No. E015/M-15-699

Dear Mr. Wolf:

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

Please contact me at the number above if you have any questions regarding this filing.

Yours truly,

Christopher D. Anderson

CDA:jmn
Attachment



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

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING and U.S.
MAIL

Jodi Nash, of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 9th day of November, 2015, she served Minnesota Power's Reply Comments on the Minnesota Public Utilities Commission via electronic filing. The remaining parties on the attached service list were served as requested.



Jodi Nash

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Gary	Anderson	N/A	Stora Enso	Duluth Paper Mill 100 N. Central Avenue Duluth, MN 55807	Paper Service	No	GEN_SL_Minnesota Power_Large Power Service List
William	Bond	william_bond@arcelormittal.com	ArceionMittal USA - Minnorca Mine Inc.	PO Box 1 5950 Old Highway 53 Virginia, MN 55792	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
Greg	Chandler	greg.chandler@upm-kymmene.com	UPM Blandin Paper	115 SW First St Grand Rapids, MN 55744	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
Jack	Croswell	N/A	Hibbing Taconite	P O Box 589 Hibbing, MN 55746	Paper Service	No	GEN_SL_Minnesota Power_Large Power Service List
Emma	Fazio	emma.fazio@stoeel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	GEN_SL_Minnesota Power_Large Power Service List
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
James	Jarvi	N/A	Minnesota Ore Operations - U S Steel	P O Box 417 Mountain Iron, MN 55768	Paper Service	No	GEN_SL_Minnesota Power_Large Power Service List
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
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	Yes	GEN_SL_Minnesota Power_Large Power Service List
Patrick	Loupin	PatrickLoupin@PackagingCorp.com	Packaging Corporation of America	PO Box 990050 Boise, ID 83799-0050	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Sarah	Manchester	N/A	Sappi Fine Paper North America	255 State St Fl 4 Boston, MA 02109-2617	Paper Service	No	GEN_SL_Minnesota Power_Large Power Service List
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David	Moeller	dmoeeller@allele.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	Yes	GEN_SL_Minnesota Power_Large Power Service List
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Ralph	Riberich	rtberich@uss.com	United States Steel Corp	600 Grant St Ste 2028 Pittsburgh, PA 15219	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
Santi	Romani	N/A	United Taconite	P O Box 180 Eveleth, MN 55734	Paper Service	No	GEN_SL_Minnesota Power_Large Power Service List
Susan	Romans	sromans@allele.com	Minnesota Power	30 West Superior Street Legal Dept Duluth, MN 55802	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
Thomas	Scharff	thomas.scharff@newpagecorp.com	New Page Corporation	P.O. Box 8050 610 High Street Wisconsin Rapids, WI 544958050	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
William	Schmidt		USG Interiors, Inc.	35 Arch Street Cloquet, MN 55720	Paper Service	No	GEN_SL_Minnesota Power_Large Power Service List
Joe	Scipioni		PolyMet Mining, Inc.	P.O. Box 475 County Highway 666 Hoyt Lakes, MN 55750	Paper Service	No	GEN_SL_Minnesota Power_Large Power Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
Karen	Turnboom	karen.turnboom@newpage corp.com	NewPage Corporation	100 Central Avenue Duluth, MN 55807	Electronic Service	No	GEN_SL_Minnesota Power_Large Power Service List
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	GEN_SL_Minnesota Power_Large Power Service List

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

In the Matter of a Petition for
Approval of an Electric Service
Agreement Between Magnetation
and Minnesota Power

Docket No. E015/M-15-699

MINNESOTA POWER REPLY
COMMENTS

I. Introduction

Minnesota Power provides these Reply Comments in response to comments in the above-referenced Docket by the Department of Commerce Division of Energy Resources (“Department”) Comments dated September 23, 2015 and by Fresh Energy in comments dated August 24 and October 5, 2015.

II. Issues Identified by the Department

The Department recommended approval of the Petition. However, in reaching its recommendation the Department recommended that Minnesota Power explain in reply comments (1) how ratepayers would benefit from the payment of the pre-petition debt; (2) how customer-sited and distributed generation resource could participate in its resource acquisition processes, and (3) the Department also recommended that the Commission:

- Direct MP to work with any large power customer who is interested in self-generation or cogeneration, to determine how those generation additions may be incorporated into MP’s resource planning decisions. If tariff revisions or ESA modifications are necessary to allow customers to pursue cost-effective self-generation or cogeneration, or to be able to fully participate as a

demand-side resource in the MISO market, MP should propose appropriate tariff and/or ESA modifications to the Commission.

- Consider requiring MP to provide notice to existing customers prior to any resource acquisition process to ensure those customers are able to participate.

Minnesota Power addresses each comment below.

1. How ratepayers would benefit from the payment of the pre-petition debt

While it is true that ratepayers are not responsible between rate cases for Minnesota Power's jurisdictional bad debt expense, bad debt write-offs suffered by Minnesota Power between rate cases will provide a basis for Minnesota Power's request and justification for this expense level in the future. Currently Minnesota Power's jurisdictional bad debt expense recovered in rates is \$583,673. This means that the exposure to the Magnetation pre-petition debt almost completely subsumes Minnesota Power's annual expense amount. As a result Minnesota Power can be expected to seek a higher bad debt expense in the future if this amount is not recovered from Magnetation via the bankruptcy process, and that non-recovery is combined with the effects of the extreme distress suffered by other Large Power and Large Light and Power customers (not to mention the multiplier effect on other business and residential customers in the region) as well as "normal course" bad debt expense. The Commission's approval of this contract will therefore help keep Minnesota Power's bad debt expense exposure lower for all customers.

2. How customer-sited and distributed generation resource could participate in Minnesota Power's resource acquisition processes

Minnesota Power already works with all of its customers to discover energy efficiency and improvement opportunities, as well as co-generation and other generation alternatives to take advantage of power generation options afforded by customers' industrial processes. Larger scale projects at Blandin and Sappi are examples of this effort. While Minnesota Power is open to customer-sited and distributed generation resources participating in resource acquisition processes, most customers are not open to developing these resources for sale into the wholesale market - they desire that their capital investment go first toward lowering their cost of energy or increasing the efficiency of their production process. Further, the customer-generation initiatives are generally driven by customer production and budget cycles, and do not heed the regulatory process or timeframes for resource planning. In any event, Minnesota Power continuously works to identify energy opportunities for these customers, including on-site generation consistent with provisions in electric service agreements.

3. Department Recommendations Regarding Resource Planning and Notice of Resource Acquisition Process

Minnesota Power does not object to either of these recommendations, with the caveat/advance understanding from the Commission that the anticipated or expected lack of participation by customers that may result will be evidence of nothing more than the fact that the process does not likely fit the planning or operational requirements. Minnesota Power appreciates the Department commentary that allowing customers the unilateral right to add generation

without notice to Minnesota Power could be harmful to the energy supply dynamic.

Finally, Minnesota Power agrees with the Department's analysis of the interplay between obligation to serve and service territory restrictions and the obligation to provide nondiscriminatory rates under Minn. Stat. § 216B.03.

III. Issues Identified by Fresh Energy

Fresh Energy's initial comments filed on August 24, 2015 claimed that the standard clause prohibition on customer generation in the proposed ESA is inconsistent with the Commission's November 12, 2013 Order in Minnesota Power's last Integrated Resource Plan. Fresh Energy believes the explicit ban on onsite generation opportunities is at odds with the Commission Order requiring Minnesota Power to evaluate additional conservation scenarios for its CIP-exempt customers. Fresh Energy contends that on-site resources should be an option for large customers covered under ESAs as they strive to maintain competitiveness. Fresh Energy recommends that future ESAs modify the restrictions on on-site customer resources in a similar manner.

Minnesota Power believes Fresh Energy's comments incorrectly assert the intent of the Commission's November 12, 2013 Order in Minnesota Power's 2013 Integrated Resource Plan (Docket No. E015/RP-13-53). Besides the fact that on-site generation or any new generation is not part of the Commission or the Department's review of Minnesota Power's Conservation Improvement Program ("CIP") and energy efficiency savings goals, the Commission's Order Point 12 in its November 12, 2013 was intended to provide the Commission additional "analysis and aggregated energy savings data for CIP-exempt

customers". While the Commission speaks through its written orders, Chair Heydinger's comments during the September 25, 2013 agenda hearing are worth noting:

Mr. Moratzka, our purpose is something different, I think. It's not just to add reporting requirements to the company. The question is what can the companies -- what can the customers and Minnesota Power do in tandem to help us have a -- and them, have a better idea of what the energy savings have been through energy efficiency and how that might play out as we look to what the resources are that will be needed going forward. I'm sure that your clients, as much as any customers, do not want the company overestimating how much power it's going to need, they want it to be accurate, and they want energy efficiency steps to be taken as appropriate to assure that unnecessary resources aren't acquired.

Specific customer requirements related to on-site generation was not part of the Commission's deliberations nor reflected in the written order. What the Commission was seeking and what Minnesota Power provided in its 2015 Integrated Resource Plan was additional information on CIP-exempt customer initiatives to save energy. Consideration of the on-site generation limitation provision in Magnetation's Electric Service Agreement and other Commission approved large customer electric service agreements do not modify either Minnesota Power's conservation goals nor the overall energy conservation for Minnesota Power's system as Fresh Energy implies, and should not be considered authority for the Commission to make its public interest determination of the Electric Service Agreement under Minn. Stat. § 216B.05.

In its follow-up Reply Comments on October 2, Fresh Energy clarified that it simply intended that the two parties agree to work together within an approved ESA to identify potential savings opportunities and not rule out the possibility of self-generating and cogeneration potential at Magnetation's industrial sites. Minnesota Power has done so, and will continue to do so, as

noted in the Department's comments at page 5 - so no Commission decision is necessary on that point.

IV. Conclusion

Minnesota Power appreciates the opportunity to address the issues raised by the Department and Fresh Energy.

Dated: November 9, 2015

Respectfully submitted,



Christopher D. Anderson
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