

March 11, 2019

**PUBLIC DOCUMENT**

Mr. Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, Minnesota 55101

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E015/M-19-37

Dear Mr. Wolf:

Attached are the **PUBLIC** ommments of the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) in the following matter:

Minnesota Power's Request for Approval of an Amended and Restated Electric Service Agreement Between Blandin Paper and Minnesota Power.

The petition was filed on January 9, 2019 by:

David R. Moller, Attorney  
Minnesota Power  
30 West Superior Street  
Duluth, MN 55802

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

Sincerely,

/s/ DANIEL W. BECKETT  
Rates Analyst

DWB/ja  
Attachment

## Before the Minnesota Public Utilities Commission

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### Public Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E015/M-19-37

#### I. BACKGROUND

On November 20, 2007, Minnesota Power (MP or the Company) filed a Petition for Approval of an Amended and Restated Electric Service Agreement with Blandin Paper Company in Docket No. E015/M-07-1457.

On February 4, 2008, the Minnesota Public Utilities Commission (Commission) issued an Order approving the Electric Service Agreement (ESA) between MP and Blandin Paper Company (Blandin).

On December 19, 2012, the Company filed a *Petition for Approval of an Amended and Restated Electric Service Agreement with Blandin*. That petition was ultimately withdrawn as the Commission denied a related petition, upon which the amended agreement relied.<sup>1</sup>

On January 9, 2019, the Company filed its current Petition for Approval of an Amended and Restated Electric Service Agreement between Blandin Paper Company and Minnesota Power (Petition).

#### I. SUMMARY OF MINNESOTA POWER'S PETITION

MP filed this Petition for an amendment to its Electric Service Agreement with Blandin under Minn. Stat. §216B.05, Subd. 2a, which states:

Subd. 2a. **Electric service contract.** A contract for electric service entered into between a public utility and one of its customers, in which the public utility and the customer agree to customer-specific rates, terms, or service conditions not already contained in the approved schedules, tariffs, or rules of the utility, must be filed for approval by the commission pursuant to the commission's rules

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<sup>1</sup> Docket Nos. E015/M-12-1348 and E015/M-12-1349.

of practice. Contracts between public utilities and customers that are necessitated by specific statutes in this chapter must be filed for approval under those statutes and any rules adopted by the commission pursuant to those statutes.

The key provisions of the Amended Agreement are:

- A. Blandin must purchase its electric service requirements for its Grand Rapids facilities from MP through at least 2029.
- B. The Amended Agreement modifies Blandin's Large Power Incremental Production Service Threshold.
- C. The Amended Agreement provides additional risk protection for MP through modified customer billing.

## **II. DEPARTMENT ANALYSIS**

### **A. INTRODUCTION**

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

- 1. MP's other ratepayers must not be negatively affected by the Amended Agreement.
- 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 Blandin.

### **B. ANALYSIS**

First, the Department analyzes each of the amendments proposed in the Amended Agreement. Second, based on that analysis the Department assesses whether the Amended Agreement meets the conditions stated by the Department as necessary conditions for its approval. Finally, the Department provides its conclusions and recommendations.

1. *The Proposed Amendments*

All the amendments are with respect to the Electric Service Agreement approved by the Commission on February 4, 2008 between MP and Blandin.

a. *Terms of Agreement (Paragraph 2)*

The proposed amendment to the Terms of Agreement would extend the duration of the Electric Service Agreement to at least 2029. The original term expired on December 31, 2011 and Blandin is currently in a “rolling” four-year notice of cancellation phase with an earliest termination date of January 31, 2023.

Such an extension would be beneficial to both MP and its ratepayers. Since Blandin’s current and proposed rates include contributions to MP’s fixed costs, MP’s ratepayers benefit from such contributions that would otherwise have to be collected from them. The extension of the contract would benefit MP by providing it with an additional stable source of revenues until 2029.

b. *Paragraph 3(G) – Large Power Incremental Production Service*

MP’s Rider for Large Power Incremental Production Service (IPS) allows a Large Power customer to purchase incremental energy at MP’s marginal energy cost (plus a small energy surcharge and incremental transmission costs) when the customer’s demand exceeds a predetermined demand level. Due to Blandin scaling back its operations with only one paper machine operating, the IPS needs to be modified from its 2007 level to more accurately represent the current production level.

The Amended Agreement recognizes this production level change in paper and/or pulp by lowering the pre-determined demand level (the IPS threshold, or IPST) from **[TRADE SECRET DATA HAS BEEN EXCISED]** kW to **[TRADE SECRET DATA HAS BEEN EXCISED]** kW. The IPST can be adjusted to reflect changes in the Maximum Replacement Amount (the Midcontinent Independent System Operator (MISO) accredited capacity of Blandin’s behind the meter generation, divided by 1.15). MP stated that the proposed lowering of the IPST provides the operational flexibility needed to allow Blandin to more effectively manage its electric use while at the same time allowing MP to recover its incremental energy and transmission costs without negatively impacting MP’s other ratepayers.

The Department recognizes the importance of aligning electric service to Blandin’s operational needs. In terms of impacts to other ratepayers, the Department notes that Blandin is one of MP’s energy-intensive, trade-exposed (EITE) customers. As such, the Commission’s April 20,

2017 *Order Authorizing Cost Recovery with Conditions* in the EITE matter, Docket No. E015/M-16-564, requires that any increases in revenues due to increased sales from EITE customers are to off-set (via a refund) the cost of the EITE rate discount provided by non-EITE ratepayers. Therefore, potential decreases in Blandin's revenues due to the Amended Agreement may decrease the likelihood that non-EITE ratepayers would be reimbursed for the EITE discount, or reduce the amount reimbursed. However, the EITE discount reimbursement concept is preserved in that Blandin's IPST could increase in the future if production increases.

The Department concludes that MP's other ratepayers will not be negatively affected by new Paragraph G in its totality.

*c. Paragraph 3(J) – Service Schedule is modified as follows*

Under Paragraph 3(J) of the Amended Agreement, a new provision provides financial guarantees to MP in the event Blandin permanently shuts down its facilities. This new section provides MP with assurances and allows for reductions in the take-or-pay Firm Demand levels. This provision allows for **[TRADE SECRET DATA HAS BEEN EXCISED]** in the event Blandin permanently shuts down its facilities.

The Department concludes that this provision would lower the financial risk of MP and is in the interest of its other ratepayers as it guarantees at least some coverage of fixed costs, which would otherwise not be covered by Blandin, if Blandin ceases operations.

*d. Paragraph 4(E) – Weekly Expedited Billing*

Under existing Paragraph 6(D), which defines the terms of billing for Blandin, monthly payments are to be made. Paragraph 4(E) in the Amended Agreement states that Blandin agrees to make weekly prepayments that will be applied to the monthly charges Blandin is billed. The weekly prepayment provision allows for Blandin and MP to adjust the weekly prepayment should significant operational changes merit the adjustment.

The Department concludes that the requirement of weekly prepayments would further reduce MP's financial risk, and would not harm other ratepayers.

*e. Paragraph 3(F) – Allowance for Scheduled Maintenance*

This paragraph allows for the flexible treatment of Blandin's electricity consumption regarding scheduling maintenance related to its operations. The Petition states that Paragraph 3(F) will enable Blandin to provide MP with two days advance notice of scheduled maintenance shutdowns related to its operations and to adjust its billing demand according to its measured

demand. The provision calls for Blandin to limit its reduction in kW-days<sup>2</sup> to **[TRADE SECRET DATA HAS BEEN EXCISED]** in any calendar year, while the minimum billing demand has a lower bound of **[TRADE SECRET DATA HAS BEEN EXCISED]**.

MP stated that the scheduled maintenance provisions are consistent with the maintenance allowances of other LP customers and recognize Blandin's current operating conditions. The Department concurs, and notes that the current ESA with Blandin contains a similar provision.<sup>3</sup>

2. *Necessary Conditions for Commission Approval*

f. *Does the Amended Agreement negatively affect MP's other ratepayers?*

Based on its analysis of each of the proposed changes contained in the Amended Agreement, the Department concludes that none of the newly proposed provisions would negatively impact MP's other ratepayers.

g. *Are the Proposed Rates and Conditions of Service, under the Amended Service Contract, available to other MP Large Customers facing similar circumstances to those of Blandin?*

Utility rates are controlled by several Minnesota Statutes. The fundamental Minnesota Statute that regulates rates is Minn. Stat. §216B.03, which states among other things:

Rates should not be unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable and consistent in application to a class of customers.

Minn. Stat. §216B.05, subd. 2a explains the regulatory treatment of electric service contracts. It states:

Subd. 2a. **Electric service contract.** A contract for electric service entered into between a public utility and one of its customers, in which the public utility and the customer agree to customer-specific rates, terms, or service conditions not already contained in the approved schedules, tariffs, or rules of the utility, must be filed for approval of the commission pursuant to the commission's rules of practice. Contracts between public utilities and customers that

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<sup>2</sup> One kW-Day reflects a 1-kW reduction in demand for one 24-hour period.

<sup>3</sup> Docket No. E015/M-07-1457

are necessitated by specific statutes in this chapter must be filed for approval under those statutes and any rules adopted by the commission pursuant to those statutes.

Reading Minn. Stat. §216B.03 together with Minn. Stat. §216B.05, Subd. 2a, the Department concludes that Minnesota Statutes allow MP to enter into an electric service agreement with Blandin consisting of terms and conditions that are unique to this agreement as long as similar terms and conditions are available to other MP customers. In its petition, MP states:<sup>4</sup>

In accordance with the requirements of Minn. Stat. §216B.03, .06, and .07, Minnesota Power has always applied the Large Power Service Schedule and the service agreements it enters into thereunder in a fair and equitable manner between and among its LP customers. Minnesota Power intends to continue this practice by making similar terms and conditions available to other LP customers who are similarly situated.

The Department agrees with MP that the proposed Amended Service Agreement meets the requirements of Minn. Stat. §216B.03, .06 and .07.

Based on its review and analysis of the amendment to the ESA between MP and Blandin, the Department is not aware of any contradiction between the proposed amendments and any provisions in the LP Service Schedule, nor any potential conflicts between the amendments to the ESA between MP and Blandin and the applicable tariffs. Thus, the Department concludes that there are no conflicts between the proposed Amended Service Agreement and MP's tariffs.

## **II. CONCLUSIONS AND RECOMMENDATIONS**

### **A. CONCLUSIONS**

Based on its review and analysis of MP's petition to date the Department concludes that:

1. The Amended Agreement is in the public interest because the extension of the Agreement through at least December 31, 2024 would benefit MP's other ratepayers by lowering their share of MP's total fixed costs.
2. The terms and conditions of service under the Amended Electric Service Agreement

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<sup>4</sup> Petition, p. 10

satisfy the requirements of Minn. Stat. §216B.03 and Minn. Stat. §216B.05.

*B. RECOMMENDATIONS*

Based on its review and analysis of MP's petition and based on its conclusions, the Department recommends that the Commission approve the proposed Amended Agreement between MP and Blandin.

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## **CERTIFICATE OF SERVICE**

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce  
Public Comments**

**Docket No. E015/M-19-37**

**Dated this 11<sup>th</sup> day of March 2019**

**/s/Sharon Ferguson**

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Greg	Chandler	greg.chandler@upm.com	UPM Blandin Paper	115 SW First St  Grand Rapids, MN 55744	Paper Service	No	OFF_SL_19-37_M-19-37
David	Chura	dchura@mnpower.com	Minnesota Power	30 West Superior Street  Duluth, MN 55802	Electronic Service	No	OFF_SL_19-37_M-19-37
Paul	Ciesielski	Paul.Ciesielski@arcelormittal.com	ArcelorMittal	3300 Dickey Road  East Chicago, IN 46312	Electronic Service	No	OFF_SL_19-37_M-19-37
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800  St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_19-37_M-19-37
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James	Jarvi	N/A	Minnesota Ore Operations - U S Steel	P O Box 417  Mountain Iron, MN 55768	Paper Service	No	OFF_SL_19-37_M-19-37

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Andrew	Moratzka	andrew.moratzka@stoel.co m	Stoel Rives LLP	33 South Sixth St Ste 4200  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-37_M-19-37
Ralph	Riberich	rriberich@uss.com	United States Steel Corp	600 Grant St Ste 2028  Pittsburgh, PA 15219	Electronic Service	No	OFF_SL_19-37_M-19-37
Santi	Romani	N/A	United Taconite	P O Box 180  Eveleth, MN 55734	Paper Service	No	OFF_SL_19-37_M-19-37

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Susan	Romans	sromans@allete.com	Minnesota Power	30 West Superior Street Legal Dept Duluth, MN 55802	Electronic Service	No	OFF_SL_19-37_M-19-37
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Karen	Turnboom	karen.turnboom@versoco.com	Verso Corporation	100 Central Avenue  Duluth, MN 55807	Electronic Service	No	OFF_SL_19-37_M-19-37
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_19-37_M-19-37