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February 20, 2014

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-14-130

Dear Dr. Haar:

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

Minnesota Power's Petition for Approval of an Electric Service Agreement between Magnetation, LLC and Minnesota Power.

The petition was filed on February 10, 2014 by:

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

The Department recommends **approval** of the Electric Service Agreement and is available to answer any question the Commission may have.

Sincerely,

/s/ EILON AMIT
Statistical Analyst

EA/lt
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

DOCKET No. E015/M-14-130

I. INTRODUCTION

On February 10, 2014, Minnesota Power (MP or the Company) petitioned the Minnesota Public Utilities Commission (Commission) for approval of an Electric Service Agreement (ESA or Agreement) between MP and Magnetation, LLC (Magnetation or the Customer). Under the proposed ESA, MP would provide power for Magnetation's iron ore concentrate facility, which will recover and produce iron ore concentrates from waste ore stockpiles near Coleraine, Minnesota. Magnetation is in the process of locating and constructing its processing plant. Under the proposed ESA, Magnetation would purchase its total electric service requirements from Minnesota Power through at least 2025.

II. DEPARTMENT ANALYSIS

A. NECESSARY CONDITIONS FOR APPROVAL OF THE PROPOSED ESA

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

1. No party affected by the proposed ESA should be worse off as a result of the amendment.¹
2. The rates under the ESA 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. TERM OF THE ESA

The term of this Agreement would begin on the first day of the month after Commission Order approving the ESA and would end no sooner than December 31, 2025, unless either party files a notice of termination four years prior to the selected termination date. The service will be provided under the Large Light and Power (LLP) tariff during the start-up period and under Large Power (LP) tariff after completion of the start-up period.

C. SERVICE REQUIREMENTS

The Service Requirements are provided under “take-or-pay” conditions, meaning that the customer must pay for the Minimum Billing Requirement. For the start-up period that ends once the customer achieves monthly Measured Demand of at least [TRADE SECRET DATA HAS BEEN EXCISED] kW, but no later than [TRADE SECRET DATA HAS BEEN EXCISED], the customer must pay for Measured Demand, under the LLP tariff. Once the start-up period ends, the Minimum Billing Requirement is [TRADE SECRET DATA HAS BEEN EXCISED] kW.

There are additional provisions under the Service Requirement which include Incremental Production Service, Allowance for Scheduled Maintenance and Increases and Decreases in Service Requirements. These provisions generally allow the customer more flexibility regarding its electric requirements while providing MP with the appropriate compensation.

The Commission recently approved ESAs between MP and Blanding Paper Company (Docket No. E015/M-12-1348) and between MP and New Page (Docket No. E015/M-12-1025), which included similar provisions.

D. FACILITY-SPECIFIC PROVISIONS

Paragraph 7(A) of the proposed ESA establishes that MP will pay for service extension costs to the Magnetation facility in accordance with the Company’s Commission-approved extension rules (Minnesota Power, Electric Rate Book-Volume 1, Section VI, Page 4, Revision 11). MP estimated that the total cost of the extension will be [TRADE SECRET DATA HAS BEEN EXCISED]. The proposed ESA provides for a Guaranteed Annual Revenue² amount to ensure that sufficient revenues from Magnetation are recovered to support the service extension and other costs required to provide service. Due to the long lead time to procure transmission and substation equipment, Magnetation agreed to provide a letter of credit for [TRADE SECRET DATA HAS BEEN EXCISED] for the period from [TRADE SECRET DATA HAS BEEN EXCISED]. MP may draw on the letter of credit if Magnetation fails to achieve the Minimum Monthly Demand, of at least [TRADE SECRET DATA HAS BEEN EXCISED] kW prior to completion of the start-up period.

² Guaranteed Annual Revenues include all revenues under the LLP and LP tariffs.

The Guaranteed Annual Revenues are as follows:

[TRADE SECRET DATA HAS BEEN EXCISED]

E. IS THE PROPOSED ESA IN THE PUBLIC INTEREST

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

The parties that may be affected under the proposed ESA are the Company, Magnetation, and MP's ratepayers. Since MP and Magnetation agreed on the proposed ESA 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 ESA. Therefore, it only remains to show that MP's ratepayers are not worse off as a result of the proposed ESA. I discuss this issue below.

First, the Department notes that the proposed ESA does not have any impact on MP's rates from the time the proposed ESA 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 guaranteed incremental revenues resulting from the proposed ESA are **[TRADE SECRET DATA HAS BEEN EXCISED]**. These incremental revenues exceed MP's incremental costs of the additional facilities by significant amounts. Moreover, under both the LLP and LP rates, Magnetation would provide additional contribution to MP's system fixed cost, thus benefiting the remaining MP ratepayers. Therefore, the proposed ESA 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 2025, 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 ESA.

In conclusion, the new electric service provided to Magnetation first under that LLP tariff and second under the LP tariff would reduce MP's future revenue requirements, thus benefiting MP's other ratepayers.

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

2. The rates under the proposed ESA may not be discriminatory.

The rates under the proposed ESA are offered to Magnetation under the LLP tariff for the start-up period and under the LP tariff after the ending of the start-up period. Clearly, such rates are available to any other customer meeting the requirements of either the LP or the LLP tariff. Therefore, they are clearly not discriminatory. Moreover, any specific terms of the contract are similar to the specific terms in the previous ESA and Amended ESA between MP and Magnetation which were approved by the Commission (Docket Nos. E-15/M-11-823 and E015/M-13-93, respectively) and would be available to any other large customer of MP facing similar circumstances to those of Magnetation. Therefore, the Department concludes that the proposed ESA meets Condition A.2 of these Comments.

III. CONCLUSIONS AND RECOMMENDATION

A. CONCLUSIONS

Based on its review and analysis of MP's proposed ESA, the Department concludes that the proposed ESA 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 ESA with Magnetation.

/lt

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-14-130

Dated this 20th day of February 2014

/s/Sharon Ferguson

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