December 30, 2015

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

Re: In the Matter of a Petition to Ensure Competitive Electric Rates for Energy-Intensive Trade-Exposed Customers
Docket No. E015/M-15-984

Dear Mr. Wolf:

We are submitting these Reply Comments on behalf of Save Our Sky Blue Waters (SOS) and Wetland Action Group (WAG) and Save Lake Superior Association (SLSA) in the above-referenced Docket. We are local non- profit organizations, representing the interest of those concerned with the long term well being of Minnesota's Arrowhead Region.

Our groups feel that increasing the electric power rate for residential and small business customers while decreasing the rate for large scale industrial users is unfair and does not benefit the public good.

Penalizing the average power consumer in this way is patently unjust, and may actually put more people/families on the public assistance payroll. This kind of increase might well be the driver that puts them over the edge.

As individual power consumers, we have been encouraged by Minnesota Power to reduce our power consumption in order to save energy and benefit the environment. However, this is not being asked of the large scale users of power. The reverse is true; they are rewarded with a rate reduction precisely because they use so much energy. How does giving the largest energy users in Minnesota a rate break/subsidy on their tremendous use of energy contribute to energy efficiency and savings, or benefit the environment?

Minnesota Power's petition reveals that the bill for residential customers would increase by around 14.5 percent. This is a very large increase to residential ratepayers, especially to Minnesota Power ratepayers who are low-income. Minnesota Power's plan to address the disproportionate burden their EITE proposal will have on low-income households is inadequate; no doubt the proposal put forth by Minnesota Power will cause undue hardships across the northland.

Minnesota Power has greatly expanded its power lines and other infrastructure, for the benefit of the large scale consumers. Due to the downturn in the mining industry, the power company may have over-expanded. These large scale power lines and infrastructure are not needed for the energy use of the area's population. However, we are now expected to subsidize huge power consumption by corporations. Our region's population is not large enough to underwrite their power consumption and we should not be burdened in this way.

The mining companies are already subsidized by the Taconite Tax amendment of 1964. In addition the IRRRB consistently rebates mining companies with money that was intended for diversification of the area's economy. Increasing the power rate for small and medium size businesses will only slow the transition to a more diversified economy.

The legislative initiative to apply this kind of rate structure was forwarded by the Iron Range political delegation as part of last minute political maneuverings at the end of the 2015 legislative session. It is now up to the PUC to determine whether it is in the best interest of this area to place a financial burden upon the average electric consumer, in order to further subsidize the large scale industries' massive use of electricity,.

Many of us who live in this area have consistently sought to reduce our energy consumption, both for reasons of our own personal economics and because we choose to be good stewards of the land. We will now be penalized for the inefficiencies of the outdated and low-grade taconite operations. We are, in effect, subsidizing a failing, environmentally destructive and non-sustainable industry. Northeast Minnesota needs to be weaning itself away from our dependence on energy intensive taconite mining and processing, as the global marketplace is producing much cheaper natural iron ores and steel, with which taconite cannot compete. Proposed low-grade sulfide mining would be in the same category--highly marginal in the market place, highly polluting in the environment. Sulfide mining would also be an enormous energy user, another part of its destructive footprint upon the land and water. Minnesota Power already has a power purchase agreement with PolyMet, even though the project is still going through environmental review. We can expect that if PolyMet is allowed to proceed, Minnesota Power will ask for the same rate break subsidy for the highly controversial NorthMet sulfide mining project.

In addition to our comments from above, we would like to quote from the comments of the Legal Services Advocacy Project:

> *Moreover, as the Minnesota Supreme Court has declared in the recent Minnesota Power case, the Commission can and must exercise its "'legislatively delegated duties and powers to protect the public interest'" in determining and insulating ratepayers from "excessive" rate increases.*
>
> *Given this analysis, there can be no other conclusion but that the Legislature provided language to overcome the bar against rate discrimination and that the Commission can*

and must retain its responsibility to ensure rates are just and reasonable. The increase that would be imposed upon residential ratepayers – especially upon non-exempt low-income or fixed-income and financially vulnerable elderly and persons with disabilities in Minnesota Power's service territory – is unjust, unreasonable, and unaffordable.

We ask the PUC to examine this rate increase from a broader perspective than what Minnesota Power has offered in its application: what is in the best interests of the greatest number of people, not what is the greatest dollar value to the top tier of users.

We agree with Minnesota Citizens Federation Northeast position in opposition to the proposed rate increase:

The net effect of the proposed rate shift is that instead of improving the economic health of Northeast Minnesota and its residents, it will have the exact opposite effect. That is why the PUC should reject Minnesota Power's proposal.

We continue to hear it repeated that the large scale users are subsidizing the rest of us, yet the basic rate structure shows otherwise. From the Minnesota Citizens Federation Northeast comments:

The 2015 legislation to allow the kind of rate shifts proposed for this docket seems to be predicated on a theory which some might view as settled science, but that is not the case. The theory in question is the notion that the company's Cost Of Service studies, which are based on Embedded Cost Theory, "prove" that the LP class is subsidizing residential users. The Citizens Federation, in past years, submitted a number of alternative Cost Of Service studies, based instead on Marginal Price Theory. Those studies directly refute the conclusions derived from MN Power's Cost Of Service studies based on Embedded Cost Theory. The Citizens Federation studies were done decades ago, but the basic facts of the contrast between the size and usage of the respective customer classes, and the respective needs for generating capacity, are essentially the same. The contrast between the two kinds of studies, based on two different economic theories, can be brought to light when the PUC opens up comments for this topic, at which time we will submit comments and evidence to further explain our contention.

A very quick glimpse of the question of subsidy can be seen by looking at MN Power's Third Quarter 2015 10 Q filing with the Securities and Exchange Commission, dated Nov. 3, 2015. It has cumulative figures for quarters one through three of 2015. There are breakdowns in revenue and kwh sales, for both the Residential customers and for Industrial customers (which is a combination of the Large Power and the Large Light &

Power classes). Making the calculations as described above, you find that Residential customers used 833 million kwh in nine months, for a price of $86.3 Million (which includes demand charge as well as per-kwh charges). In total, it divides out to 10.36 cents per kwh -- with the demand charges rolled in. For the Industrial customers, the figures are 5,063 million kwh, for a price of $320.7 Million. ***In total, it divides out to 6.33 cents per kwh – with the service charges rolled in. 10.36 cents per kwh residential versus 6.33 cents per kwh industrial: How can anyone look at that and claim that the large users are subsidizing the residential class?***

We make reference to these points now simply to emphasize that the issue of "who is subsidizing whom" is a professionally debatable topic which demands a proper investigation, instead of a "fast track" process which pretends that this debate doesn't exist.

We also reiterate the Minnesota Citizens Federation Northeast recommendations, as follows:

RECOMMENDATIONS

1. The PUC should reject MN Power's petition, because instead of producing a net benefit to the state, it will produce a net harm. It will not help the taconite companies save sales or jobs, but it will impose economic hardship on an already suffering region.

2. If the PUC feels that it might be possible that the proposed rate shift could benefit the state, then the PUC should initiate a thorough investigation, as allowed under State Statutes 216B.21 (subd. 1), with information request rights for intervenors, and a reasonable timetable to obtain and judge relevant facts. Those facts would include data on how many cents per ton the electric reduction would amount to for taconite production costs, and what portion that would be of the total cost reduction which would be needed in order to compete. In addition, data should be gathered to quantify the harm to area residents and businesses which would be caused by the $17.5 million rate shift.

3. If the PUC wants to consider the question of whether the Large Power class is subsidizing the Residential class, then it should do so properly within a specific investigation that the PUC could conduct by its powers under State Statutes 216B.21 (subd. 1), or in a general rate case.

We also agree with the Energy CENTS Coalition's opposition to the proposed rate increase, summed up in this statement:

The proposed residential rate increase will only exacerbate the current economic hardship experienced by residents in Minnesota Power's service territory while doing absolutely nothing to change the current global economic conditions. Any harm to Minnesota Power's residential customers must be considered when determining if the EITE proposal provides a net benefit to the State.

Minnesota Power's petition is deficient and does not show a net benefit and should be denied.

From the comments of LORI SWANSON Attorney General, State of Minnesota:

The law enacted by the Minnesota Legislature this year requires the Commission to determine whether Minnesota Power's proposed EITE rate provides a "net benefit to the utility or the state" if the rate is to be approved. To make this determination, the Commission must request additional information from the utility and thoroughly analyze all costs and benefits that would result from the utility's proposal, including the impact on other ratepayers.

In Conclusion

We believe it is appropriate for the Commission to deny Minnesota Power's petition. Minnesota Power has failed to show that costs for electricity are a major component of the current economic conditions faced by their large scale customers. A rate reduction for these large energy using customers does not meet the net benefit standard required by the EITE statute and should be denied. Again, if the petition were to be approved, it would harm a significant portion of Minnesota Power's residential customers. Because of the depressed economy of many parts of northeastern Minnesota, a 14.5% rate increase for residential ratepayers would contribute additional economic hardship for the Arrowhead region and should be rejected.

Thank you for accepting our comments.

Elanne Palcich
Save Our Sky Blue Waters
P.O. Box 3661
Duluth, MN 55803
epalcich@cpinternet.com
(218) 969-9557

Bob Tammen
Wetland Action Group
PO Box 398
Soudan, MN 55782
bobtammen@frontiernet.net
(218) 343-6047

LeRoger Lind
Save Lake Superior Association
P.O. Box 101
Two Harbors, MN 55616
llind@yahoo.com
(218) 834-6137