ENERGY
CENTS
COALITION

Commit Energy Now To Survive

December 21, 2015

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, Minnesota 55101

RE: **In the Matter of a Petition by Minnesota Power To Ensure Competitive Electric Rates for Energy-Intensive Trade-Exposed Customers**
Docket No. E002/M-15-984

Dear Mr. Wolf:

Enclosed please find the Energy CENTS Coalition's Comments in the above-captioned matter. An Affidavit of Service is also enclosed.

If you have any questions, please contact me at 651-774-9010.

Sincerely,

Pam Marshall

Pam Marshall

AFFIDAVIT OF SERVICE

Pam Marshall, being duly sworn, says that on the 21st day of December 2015, she served the Energy CENTS Coalition's (ECC) Comments via electronic filing In the Matter of Petition by Minnesota Power To Ensure Competitive Electric Rates for Energy-Intensive Trade-Exposed Customers, Docket No. E002/M-15-984, to the individuals on the attached service list.

Pam Marshall

Pam Marshall

Subscribed and sworn to before me
this 21st day of December, 2015

Patricia Fischer

PATRICIA M. FISCHER
NOTARY PUBLIC - MINNESOTA
My Commission Expires
January 31, 2017

Notary Public

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STATE OF MINNESOTA BEFORE THE PUBLIC UTILITIES COMMISSION

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Nancy Lange	**Commissioner**
Dan Lipschultz	**Commissioner**
John Tuma	**Commissioner**
Betsy Wergin	**Commissioner**

In the Matter of a Petition by Minnesota Power To Ensure Competitive Electric Rates for Energy-Intensive Trade-Exposed Customers

COMMENTS OF THE ENERGY CENTS COALITION

DOCKET NO. E002/CI-15-984

December 21, 2015

The Energy CENTS Coalition (ECC) appreciates the opportunity to respond to the Commission's request for Comments in the above-captioned matter.

I. INTRODUCTION

On November 13, 2015, Minnesota Power ("MP" or "the Company") filed a petition seeking Minnesota Public Utilities Commission ("Commission") approval of a Rider for Energy-Intensive, Trade-Exposed ("EITE") Customers and an EITE Cost Recovery Rider. Minnesota Statute 216B.1692, Subd. 2(b) states that "the commission shall, upon a finding of net benefit to the utility or the state, approve an EITE rate schedule" and Subd. 2(c) states that the "commission shall make a final determination in a proceeding begun under this section within 90 days of a miscellaneous rate filing by the electric utility."

In these comments, ECC recommends that the Commission find, based on the record developed thus far, that it is impossible to determine whether the Company's Petition results in a net benefit to the utility or to the State of Minnesota. ECC further recommends that the lack of "net benefit" or public interest finding would constitute a final determination in this proceeding and, therefore, would satisfy the EITE Statute's requirement to make a final determination within 90 days.

ECC's recommendation above could be accompanied by further investigation. Minn. Stat. 216B.21 (subd. 1) states, in part, that "whenever the commission has reason to believe that any rate or charge may be unreasonable or unjustly discriminatory . . . or that an *investigation of any matter relating to any public utility should for any reason be made*, it may on its own motion summarily investigate the same with or without notice" (emphasis added). That same Statute also states: "If, after making the summary investigation, the commission becomes satisfied that sufficient grounds exist to warrant a formal hearing being ordered as to the matters investigated, it shall set a time and place for a hearing (subd. 2)."

If the Commission makes a determination that a net benefit finding cannot be made, ECC believes the Commission has satisfied the terms of the EITE Statute. The Commission could, however, take further investigative action or initiate a contested case proceeding but, ECC does not believe that either of those additional actions are required in order to make a final determination regarding Minnesota Power's petition.

In the comments that follow, ECC will provide support for the contention that a net benefit finding is impossible to make. Electric costs are not determining whether or not Minnesota Power's large customers are competitive and, therefore, the prosed 4.7% reduction in electric rates for those customers will not make them more competitive.

In these comments, ECC will discuss three general assumptions in the Company's petition. The first assumption is that the large customers compete in global markets and are exposed to “significant trade pressures that are directly related to their ability to produce a competitively priced product” and additional “regulatory pressures” have caused increases to their electric costs, a “key component to the growing production costs of these customers” (p. 28). In order to justify their request, Minnesota Power elevates the importance of electric costs and dismisses the more relevant factors that are causing the current conditions facing U.S. steel companies—the increase in foreign steel imports, the high level of international inventories and depressed steel prices. “The spot HRC (hot-rolled coil) pricing is only about $20 per ton higher compared to the 2009 lows. In light of depressed steel pricing, even the fall in steel imports might not be able to rescue the steel industry” (See Attachment 1).

As ECC will show below, however, the steel import and inventory issues are not the only factors that influence the economic health of particular steel manufacturers. More significant global economic forces, operational issues and internal management practices are influencing the financial situation of Minnesota Power’s large customers.

Given the first assumption, the second follows. Minnesota Power asserts that the energy credit they propose to offer the identified EITE customers will have a significant effect on the competitiveness of those companies. But, the first assumption is wrong and, therefore, so is the second assumption. The third assumption is even more absurd than the first two—that Minnesota Power’s residential customers are responsible for solving the global economic conditions the EITE customers may experience. 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.

Finally, ECC will discuss the Company's proposed EITE cost recovery exemption for customers receiving assistance through the Low Income Home Energy Assistance Program (LIHEAP) and proposed LIHEAP outreach efforts.

II. ELECTRIC COSTS ARE NOT THE ONLY FACTOR AFFECTING EITE CUSTOMER COMPETITIVENESS

In testimony to the Minnesota Legislature last session, U.S. Steel officials said that their annual electric bill for two Minnesota operations—Keetac and Minntac—was $140 million and that "a five percent reduction would save the company about $7 million annually."[1] According to Minnesota Power's EITE petition, "the rising cost of electricity, due to increasing regulatory pressures at both a state and federal level, is a key component to the growing production costs of these customers (p. 28)." Financial analysts, however, are not attributing the current downturn in the steel industry to increased regulation or increased electric costs. Instead, analysts attribute the current conditions primarily to high inventory levels and foreign steel imports.

> U.S. Steel said that it will temporarily idle a part of its Minnesota Ore Operations at the Minntac iron ore plant in Mt. Iron, MN, to adjust production. The move will be effective Jun 1, 2015. Iron-bearing rock (known as taconite) is mined and processed into iron ore pellets at the Minntac plant for use in the company's steelmaking plants. *U.S. Steel's existing inventory levels and adjustments of its steel production throughout North America led to this decision* (emphasis added).[2]

[1] John Meyers, *Duluth News Tribune*, November 13, 2015.
[2] *U.S. Steel to Idle Minntac Iron Ore Plant, Shares Down - Analyst Blog,* April 01, 2015, 02:50:00 PM EDT By Zacks Equity Research, Zacks.com, http://www.nasdaq.com/article/us-steel-to-idle-minntac-iron-ore-plant-shares-down-analyst-blog-cm461341#ixzz3unix57rp

> U.S. Steel regularly adjusts production at its operating facilities to adapt to the changing market conditions owing to the cyclical nature of the industry. Economic factors like high levels of imports, unfairly traded products and the reduced steel prices continue to have an adverse impact on steel production. A total of 412 employees working at the Keetac plant have been informed about the idling of production . . . As reported on Jan 27, 2015, U.S. Steel's fourth-quarter 2014 profits slipped 7.4% to $275 million or $1.83 per share from $297 million or $1.93 per share recorded in the year-ago quarter. However, the company saw a significant increase in its adjusted earnings which surpassed expectations , , , The company expects moderate growth in the global economy during 2015 with U.S. growth rate at roughly 3% and European region growth rate at roughly 1%.[3]
>
> Falling oil prices are hurting U.S. Steel's business in the energy market. The company, in Jan 2015, said that it is temporarily shutting down two tubular steel facilities, laying off more than 750 workers. It is idling its Lorain Tubular Operations in Ohio and another steel tube facility in Texas. Several energy companies are dialing back drilling plans in the face of the oil price slump.[4]

Beyond inventory levels, imports and lower production levels, other factors also contribute to the current economic condition of steel companies. For example, U.S. Steel's financial position has been affected by the accelerated payment of $118.6 million demanded by the owners of at least 25% of the Company's debt. Originally, U.S. Steel had until 2019 to repay the debt but the demand for payment, by The Bank of New York Mellon, was made on November 20, 2015.[5]

And, as the largest supplier of steel tubular goods to energy production companies, U.S. Steel is also affected by the depressed energy sector and lower crude oil prices which accounts for 10% of steel consumption. Further, "U.S. Steel has faced several challenges following the global recession. Some of these challenges were due to difficult markets, while some related to the company's core operations."[6]

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[3] *U.S. Steel to Idle Keetac Operations for Production Adjustment - Analyst Blog*, March 13, 2015, 06:11:00 PM EDT By Zacks Equity Research, Zacks.com, http://www.nasdaq.com/article/us-steel-to-idle-keetac-operations-for-production-adjustment-analyst-blog-cm454814#ixzz3unhpljra

[4] http://www,nasdaq.com/markets/crude-oil.aspx.

[5] See United States Securities and Exchange Commission, Form 8-K, Current Report, November 20, 2015, United States Steel Corporation and *Pittsburgh Post-Gazette*, December 16, 2015.

[6] Mark O'Hara, "U.S. Steel Extends Its Transformation Amid a Challenging Market," Mar 27, 2015 10:19 am EST, at http://marketrealist.com/.

In other words, factors well beyond electric rates, and even beyond the primary economic issues of imports and inventories, affect U.S. Steel's financial health. ECC will not discuss each of the following factors in detail but, instead, provides the Commission with the following (non-exhaustive) information in order to illustrate that the cost of electricity is not the key to the competitiveness of steel companies.

- By 2009, U.S. Steel's pension plan was underfunded by . . . $1.7 billion. More than half of pension assets were invested in equities. With the crash in stock prices, the assets of U.S. Steel's pension fund also came down. To add to these struggles, retiree medical and life insurance plans were also underfunded by $2.9 billion.

- U.S. Steel (X) has issued notices to more than 2,000 employees of its Illinois plant under the *Worker Adjustment and Retraining Notification (WARN) Act*. The plant produces tubular products for the steel industry. The energy sector accounts for 10% of steel consumption in the US. The sector was buoyant, driven by shale discoveries and rising crude oil production. However, steel demand from the energy sector has been hit, as crude oil prices have fallen to multi-year lows.

- U.S. Steel is investing $47.5 million towards the construction of a coupling facility. This facility will help U.S. Steel develop premium value-added steel products for the energy industry. Value-added steel products sell at higher prices compared to standard steel products. This is also part of the Carnegie Way plan, through which U.S. Steel is working to increase its profit margins.

- There are two basic types of steel production processes: blast furnace (or BF) and electric arc furnace (or EAF). U.S. Steel produces all of its steel through blast furnaces. A blast furnace has high set-up costs compared to an EAF. As the fixed costs associated with BFs are higher, they severely affect the profits for steel companies in downturns. The reasoning is pretty simple. When production falls, fixed costs are divided among fewer units. This increases the per-unit production cost. When capacity utilization rates are low, as they are currently, the profitability of steelmakers using blast furnaces comes down. On the other hand, steel companies using EAFs to produce steel generally don't see huge swings in their profits.

- An integrated steel producer, U.S. Steel has been using self-mined iron ore for steel production. It hasn't been able to benefit from lower steel scrap and iron ore prices. By producing steel through EAFs, U.S. Steel can use steel scrap to produce finished steel. The company will benefit from lower steel scrap prices. U.S. Steel had halted expansion at its iron ore mine in Minnesota.

- U.S. Steel has announced an investment of $230 million to construct an EAF at its facility in Fairfield Works, Alabama. The construction will begin in 2Q 2015, and it's expected to complete by 3Q 2016. EAFs will provide U.S. Steel with operational flexibility, as it's much easier to adjust production levels in an EAF.[7]

In addition, not all steel companies are experiencing the issues unique to U.S. Steel. For example, Steel Dynamics, (80-82%) owner of Mesabi Nugget and Mining Resources, already produces steel using EAFs and, unlike U.S. Steel that "posted losses for five consecutive years between 2008 and 2013 . . [was] "still making money."[8] Analysts expect the company to "grow earnings at an average rate of 11.9%" despite a forecast for a 39.33% loss in 2015.[9] Further, analysts assert that Steel Dynamics "has the balance sheet and cash flow to capitalize on the current market dislocation" and they expect scrap values "will allow Steel Dynamics to expand profit margins."[10]

The CEO of Steel Dynamics states that "there continues to be strength in several key steel-consuming end markets" and believes that the company is "poised to capitalize on meaningful growth opportunities, both near-term and in the future" (See Attachment 2).

In other words, there is no general, operational conclusions that can be made about the Iron Range's taconite companies. To suggest that electricity costs are more important than other production costs, company management practices and operational differences between companies is misleading. Further, the steel industry is not the only industry that is experiencing high inventory rates and pressure from global competition.

[7] Ibid.
[8] Ibid.
[9] NASDAC.com; data provided by Zacks investment Research.
[10] "This Just In: Upgrades and Downgrades," *Motley Fool*, December 14, 2015, www.fool.com/investing/.

The downward trend in the oil and gas sector, for example, has caused Honeywell to forecast sales growth of one to two percent, a slower growth rate than . . . anticipated." And, "rising global crop stockpiles and the strengthening of the dollar have weighed on U.S. grain exports."[11]

Isolating electric costs as the primary economic pressure and narrowing the focus of that pressure to only a few industries, is misguided. Raising residential electric rates is not the solution to problems facing taconite companies and is not in the public interest.

III. THE EITE STATUTE REQUIRES A NET BENEFIT FINDING

The Company claims that providing an energy credit to EITE customers is in the public interest of both the utility, the Iron Range and Duluth areas, the Northeast Minnesota region and the State of Minnesota as a whole. The Company asserts that the EITE petition will benefit the utility because "Minnesota Power has also been negatively impacted through reduced energy sales, with year-over year electricity sales to the taconite/iron concentrate customers over 5% lower than 2014 and nearly 10% lower than the Company's expectations through the first half of the year" (p. 32). If the Company wants to address reduced sales, they should file a general rate case.

To further support this claim, the Company offers the following assertions:

1) The affected EITE customers "compete in a worldwide market where they are exposed to significant trade pressures that are directly related to their ability to produce a competitively priced product" (page 28).
2) The "rising cost of electricity . . is a key component to the growing production costs of these customers" (p.28).
3) "Having large industrial customers on the Minnesota Power system results in increased reliability and decreased costs to other Minnesota Power customers" (p. 28)

[11] "Businesses Weigh Impact of Rate Hike" *The Wall Street Journal*, December 17, 2015.

4) The large customers contributed to the cost of Minnesota Power's renewable energy additions (p. 29).
5) Minnesota Power's residential customer rates have been "subsidized by other classes of customers for many years" (p. 29).
6) EITE customers make economic contributions to Northeastern Minnesota (employment, taxes, and Gross Regional Product) and represent employ a number of workers (pp. 29-30)
7) Wages are higher in EITE customer industries (p.30)
8) EITE customers create indirect jobs (p. 31).
9) EITE customers pay taxes in the region

ECC addressed the first two issues in the discussion above. In this section, ECC will focus on the Company's assertion that large power customers "subsidize" residential customers and on the economic conditions facing residents in Northeast Minnesota. Before doing so, however, ECC believes that it is important to note that ECC recognizes the importance of the role that mining and paper industries play in creating living wage jobs. Nonetheless, it is ECC's contention that Minnesota Power has the burden to show that a 4.7% reduction in electric costs for those industries will result in the retention or expansion of those living wage jobs. The Company has not met that burden. Minnesota Power has not shown that the proposed reduction will cause idled taconite plants to re-open or re-hire workers or to stop paper companies from declaring bankruptcy. Instead, the Company provides a general, correlative description of the economic benefits the large customers provide to the region but they do not provide a causal relationship between the electric rate reduction request for those customers and any tangible economic benefits that will result from that reduction.

In fact, ECC believes that the Company's proposal will actually cause harm to low and moderate households in the region. ECC respectfully requests that the Commission consider these economic factors as part of any determination of the EITE's net benefit.

IV. THE PROPOSED RATE COST ALLOCATION WILL HARM MINNESOTA POWER'S RESIDENTIAL RATEPAYERS

The Company's proposed EITE Cost Recovery Adjustment results in a 14.53 percent increase in the average residential customers' electric bill or $11.46 more per month. According to the Company, "high" usage customers will experience a monthly electric bill increase of $15.20. Because the Company defines "high" usage as 1,000 kWh/month, the effect of the proposed adjustment on customers with usage above 1,000 kWh/month will be even higher. Customers who use electricity for space heating are very likely to use over 1,000 kWh/month in the winter months.

Under the Company's proposal, Minnesota Power's residential customers who do not receive LIHEAP will experience significant rate increases, causing harm to households already facing precarious financial conditions. Attachment 3 shows that households in Minnesota Power's service territory already struggle to meet essential needs and spend an inordinate amount of household income for housing related costs. These customers cannot afford the Company's proposed rate increase.

Compared to the rest of the State, households in Minnesota Power's service territory are more likely to live on lower incomes or to live in poverty.

	Minnesota	St. Louis County	Duluth
Households Under $25,000	10.4%	13.6%	14.3%
Median Income	$77,941	$66,147	$62,844
Median Worker Income	$33,720	$26,857	$22,481
Households in Poverty	7.5%	9.9%	10.1%[12]
# HHs under $15,000	206,730	12,697	6,505

As shown by the chart below, any median wage-earning household in St. Louis County with two or more members is income-eligible to receive assistance from the Low

[12] U.S. Census Bureau, 2015 American Community Survey.

Income Home Energy Assistance Program (LIHEAP). Over 14% of ***all*** two-person households in St. Louis County alone are income-eligible for LIHEAP.

Minnesota Energy Assistance Program Income Guidelines

Household Size	Eligible Annual Income
1	$23,949
2	$31,318
3	$38,687
4	$46,056
5	$53,424
6	$60,793

It is important to note that only 30% of the income-eligible households in Minnesota Power's service area actually receive financial assistance from LIHEAP. The overwhelming majority of lower income Minnesota Power customers do not receive any help from LIHEAP. By definition one-quarter of Minnesota households are income-eligible for LIHEAP (households at or below 50% of the State Median Income qualify). However, in areas of the state with lower household incomes, as in Minnesota Power's service area, even more households are income-eligible for LIHEAP. Even the Company recognizes that 36,000 households in their area are income-eligible for LIHEAP.[13] According to the Company, 10,500 customers receive LIHEAP "every year."[14]

At current Minnesota Power electric rates, households with annual incomes of $15,000 and average electric usage level spend six percent of their income just for electric service. At the proposed increase, these households will spend 7.3% of their

[13] In the Matter of the Application of Minnesota Power for Authority to Increase Electric Service Rates in Minnesota, Docket No. E-015/GR-08-415, Direct Testimony of Susan K. Thompson.
[14] See Minnesota Power's supplemental filing in this docket, December 4, 2015, describing additional outreach efforts and the $10,000 deposit to Arrowhead Economic Opportunity Agency.

income for electric costs. The scenario only worsens for those households with higher usage.

These customers are among those that the Company claims have been "subsidized" by large customers "for many years." According to Pat Mullen, Minnesota Power's Vice President of Marketing and Corporate Communications, "In 2010, the last time Minnesota Power received PUC approval to raise its rates, taconite plants saw a 16 percent rate hike compared to 4 percent for homeowners. That's been the trend in recent years and has led to industry 'paying more than their fair share'."[15] Mr. Mullen omitted the fact that, in the rate case only a year before the 2009 case, residential rates increased 12 percent while rate for large customers increased 2.2 percent. In that same case, the residential customer service charge increased 60 percent.[16]

Representatives of EITE customers make the same claim. The Vice President of Minnesota Forest Industries trade group stated "this [rate reduction] is going to make a competitive difference . . .I challenge anyone to say how, in this age of a global economy, we should have our industries subsidizing residential electric customers. We just can't afford to do that anymore." Verso paper mill manager John Bastian also claimed that the EITE "plan will help our products be priced more competitively and will help keep our 300 Duluth-area employees working."[17]

Like the steel industry, however, electric costs are not the primary factor affecting the economic health of the paper industry. As Attachments 6 and 7 show, electric costs are not the driver behind the possibility that Verso will sell its Duluth paper mill or file for

[15] John Meyers, *Duluth News Tribune*, November 13, 2015.
[16] In the Matter of the Application of Minnesota Power for Authority to Increase Electric Service Rates in Minnesota, Docket No. E-015/GR-08-415
[17] John Meyers, *Duluth News Tribune*, November 13, 2015.

bankruptcy. In 2014, Verso Paper Corporation closed a plant in Bucksport, Maine, laying off more than 500 workers. Despite a Maine law designed to help dislocated workers of larger companies by requiring larger employers to provide severance pay at a rate of one week's salary for every year employed, Verso claimed that the law did not apply to them and refused to make any severance payments. At the same time, Verso's CEO received a $527,875 bonus ($1.48 million total compensation) and four other vice presidents received an average bonus of more than $200,000 each. In February 2015, the Company "set aside $8.4 million for their executive bonus program, which they call 'Verso Incentive Plan' or just 'the VIP'." In Maine, the Company received $4 million annually from state business tax rebates and, in 2010, received a $2 million grant from the state to lower its energy costs. The Company has also benefitted from a $10 million tax increment financing deal with the City of Bucksport.[18]

A very similar story can be told about U.S. Steel. The President and Chief Operating Officer (CEO) of U.S. Steel, (owners of the MinnTac and Keetac plants and minority owner of Hibbing Taconite), was paid $13.2 million in 2014. He received $5.6 million in 2013. The difference between the two years was a bonus that acknowledged 2014 as U.S. Steel's most profitable year since 2008. Now, Keetac is idle and 400 people have lost their jobs.[19]

Minnesota Power's residential customers, many of whom are low and moderate income and the laid off miners or potentially laid-off paper mill workers should not have to pay for the management decisions of Minnesota Power's large customers.

[18] *Portland Press*, December 13, 2014.
[19] NASDAC.com; data provided by Zacks investment Research.

V. LIHEAP Customer Exemption from EITE Cost Recovery is Inadequate to Protect low-income customers

Under the EITE statute, customers that receive LIHEAP are exempt from the EITE cost recovery and, therefore, are insulated from the proposed residential rate increase. The statute requires the Company to pay $10,000 “into an account . . . to expand the outreach of the commission-approved affordability program.” The Company proposes to use the EITE outreach funds to “expand its LIHEAP pool of customers, which in turn would help to engage more potential participants to the CARE program.”[20]

Currently, about 10,500 Minnesota Power customers receive LIHEAP. The Company’s CARE program provides a discount to customers who are income-eligible for LIHEAP. While customers do not have to receive LIHEAP in order to receive a supplemental CARE benefit, fewer than 10% of CARE customers did not receive LIHEAP.[21] In other words, 90% of all CARE customers do receive LIHEAP so successful LIHEAP outreach efforts are essential to enrolling more customers in CARE.

Yet, none of the outreach activities the Company proposes are aimed at increasing the LIHEAP customer population. The activities listed all attempt to increase enrollment in the Company’s CARE program. Even #3(a) in the Company’s list of outreach activities, to “conduct a direct contact reach-out to LIHEAP-qualified [i.e. income-eligible] customers not enrolled in the CARE program to enroll them or determine why they choose not to participate,” does not mention enrolling income-eligible customers in LIHEAP. If customers do not receive LIHEAP, they cannot be exempt from the EITE cost recovery proposal.

[20] See Minnesota Power’s supplemental filing in this docket, December 4, 2015, describing additional outreach efforts and the $10,000 deposit to Arrowhead Economic Opportunity Agency.
[21] Energy CENTS Coalition Comments, February 19, 2013, Docket No. E-015/M-11-409.

Even if the Company and the Arrowhead Economic Opportunity Agency (AEOA), with whom Minnesota Power contracts to administer CARE and is the recipient of the additional $10,000 in outreach funds, do focus on LIHEAP outreach, ECC doubts they will succeed. First of all, current Minnesota LIHEAP policies provide funding for Outreach Activities under the Assurance 16 (A16) component of the program (see Attachment 4). Fifty percent of all A16 funds can be used to support LIHEAP outreach efforts. The table below shows that, in four out of the past five years, AEOA has not spent their A16 funds. Further, according to the agency's report, it appears that last year's LIHEAP outreach efforts resulted in an additional 184 LIHEAP applications (see Attachment 5). ECC questions how an additional $10,000 will help promote LIHEAP participation or enroll more customers in CARE.

Year	Total A16 Available	Total A16 Expenditures	Total Outreach Expenditures
FFY15	$327,145	$316,074.57	$56,840
FFY14	$347,984	$293,225.80	*Outreach not tracked separately until FFY15
FFY13	$321,072	$321,072.00	
FFY12	$352,850	$348,091.48	
FFY11	$445,370	$397,484.76	

If the Company's LIHEAP outreach efforts are successful and the number of LIHEAP customers grows significantly, the Company can more easily identify and enroll customers in the CARE program. However, given the current CARE program budget, the Company would have to request an increase in CARE funding in order to assist more customers. In the most recent CARE annual report, the Company collected $950,256 for the CARE surcharge and provided $943,388 in CARE benefits.[22] Other than the balance brought forward, additional enrollment in CARE would require an

[22] Compliance Filing, May 4, 2015, Docket No. E-015/M-11-409.

increase in the program's budget. It is unclear to ECC if the Company is proposing such an increase.

Because the number of Minnesota Power LIHEAP customers has remained constant for several years, despite the outreach funds available to AEOA through LIHEAP, ECC does not believe a significant number of LIHEAP customers will be identified through the efforts described by the Company. Therefore, more low income customers will be subject to the Company's EITE cost recovery proposal. Not only does the Company's proposal provide no net benefit to the State, it actually harms Minnesota Power's residential customers, a disproportionate number of whom are low and fixed income.

VI. Conclusion

ECC's comments show that the Company's petition actually harms a significant number of Minnesota Power customers. Minnesota Power has not demonstrated that electric costs are the primary driver of the current economic conditions faced by their large customers. Therefore, a rate reduction for these customers does not meet the net benefit standard required by the EITE statute.

The Commission should deny the Company's petition. ECC believes that a Commission finding that the Company has not met the EITE statute's net benefit standard satisfies the statute's requirement that the Commission make a final determination within 90 days of a proceeding begun under the EITE statute.

If the Commission determines that the Company's petition has not met the net benefit standard set forth in the EITE statute, nothing precludes the Commission from further record development and investigation of the material elements of that petition.

Respectfully submitted, December 21, 2015

Pam Marshall

Pam Marshall
Energy CENTS Coalition

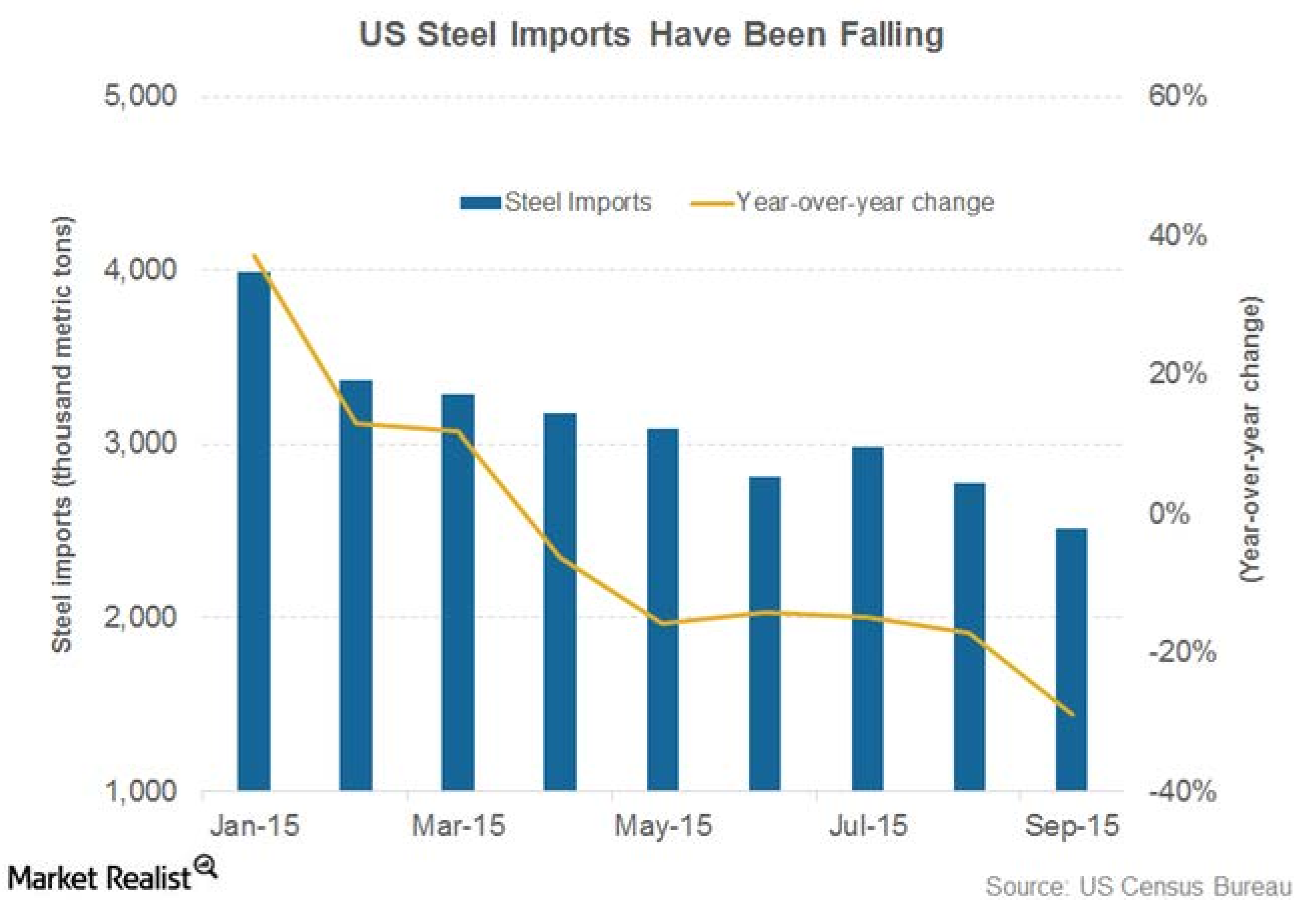
ATTACHMENT 1

Markets Aren't Cheering the Steep Fall in Steel Imports[1]

By Mark O'Hara • Nov 13, 2015 12:17 pm EST

Steel imports

For months, steel company executives have been crying foul over the steep rise in US steel imports. Looking at the last few earnings calls, steel companies including U.S. Steel (X), AK Steel (AKS), and Steel Dynamics (STLD) agreed on one thing. They agreed that rising steel imports are the biggest challenge for the US steel industry. Metal service centers including Reliance Steel & Aluminum (RS) increased their buying from overseas steel companies to exploit the price arbitrage between the US and international steel prices. Currently, Reliance Steel forms 5.2% of the SPDR S&P Metals & Mining ETF (XME).



Enlarge Graph

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[1] These excerpts are part of a series of articles available at http://marketrealist.com/2015/11/markets-arent-cheering-steep-fall-steel-imports/.

Steel imports fall

However, steel imports have been trending downwards. They registered a YoY (year-over-year) fall for six consecutive months. You can see this in the above graph. According to the preliminary data released by the US Census Bureau, the country imported 2.5 million tons of steel products in September—the lowest level of imports since December 2013. For the first time this year, the cumulative steel imports fell on a YTD (year-to-date) basis. This should have been positive news for the US steel industry, but the markets largely ignored this development. Let's see why.

Is it too late?

The negative sentiment around commodity shares increased in the last couple of weeks. Copper and aluminum are trading near their six-year lows after consolidating in September. As discussed previously, steel prices in the US fell over the last few weeks. The spot HRC (hot-rolled coil) pricing is only about $20 per ton higher compared to the 2009 lows. In light of depressed steel pricing, even the fall in steel imports might not be able to rescue the steel industry.

Also, steel imports might be falling as the arbitrage opportunity between the US and global prices is shrinking quickly. In the next part, we'll explore how steel prices are shaping up globally.

ATTACHMENT 2

Steel Dynamics Reports 2014 Fourth Quarter and Full-Year Results

FORT WAYNE, Ind., Jan. 28, 2015 /PRNewswire/ -

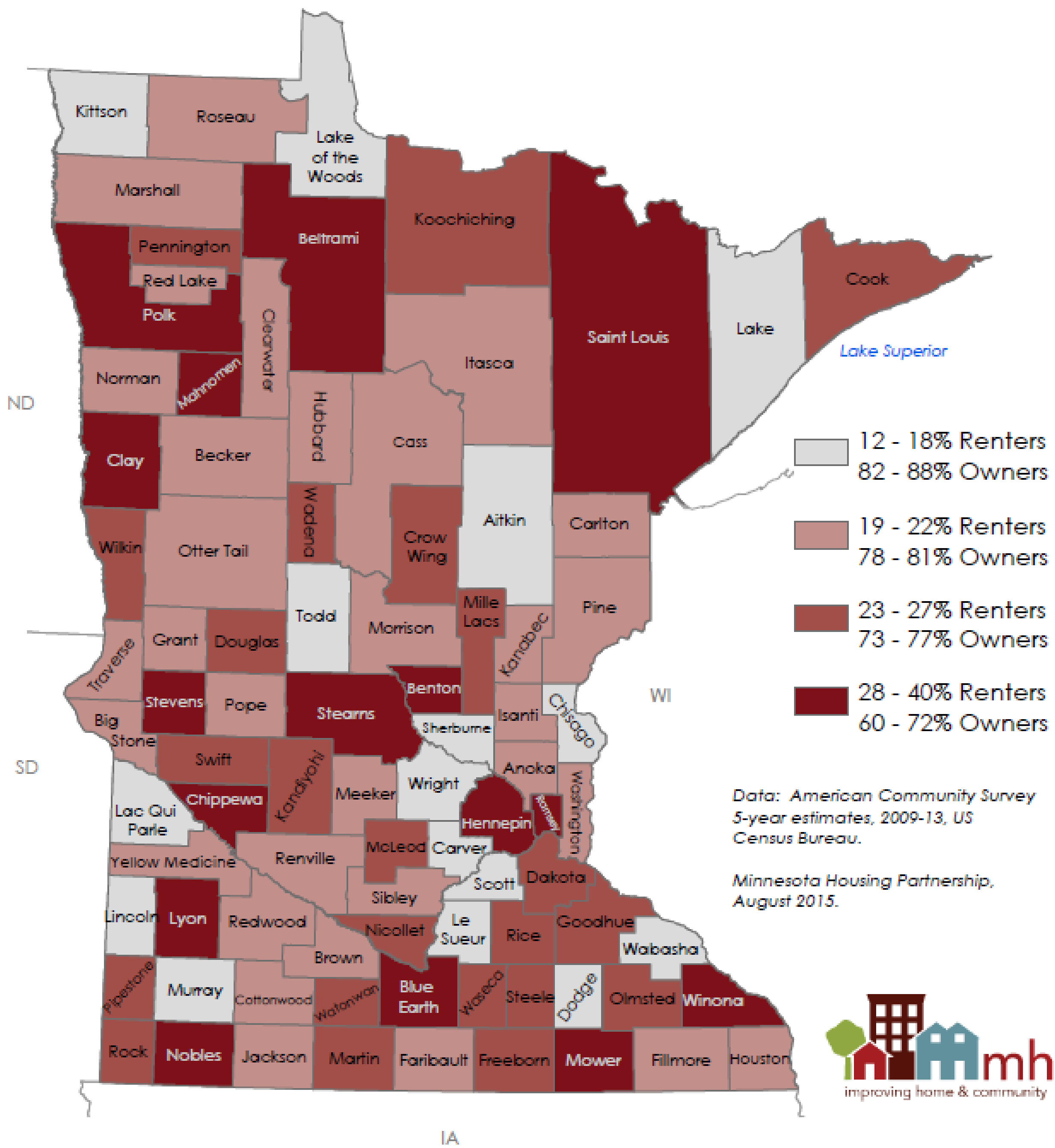
Outlook

"As we enter 2015, we remain optimistic that the broader U.S. economy will continue to improve," said Millett. "However, we are facing a challenging first quarter. The instability of global growth and continued decline in global oil prices weigh on general sentiment. The combination of high import levels and a seasonally slow December resulted in higher levels of customer inventories, and consequently has resulted in decreased selling values. We believe this overhang can be resolved during the first quarter of 2015. The U.S. economy continues to improve, and there continues to be strength in several key steel-consuming end markets, including automotive, manufacturing and nonresidential construction. The non-service sector portion of U.S. GDP will continue to strengthen, and is capable of growing at a higher rate than overall U.S. GDP, which is a positive for steel consumption in 2015 and the out years.

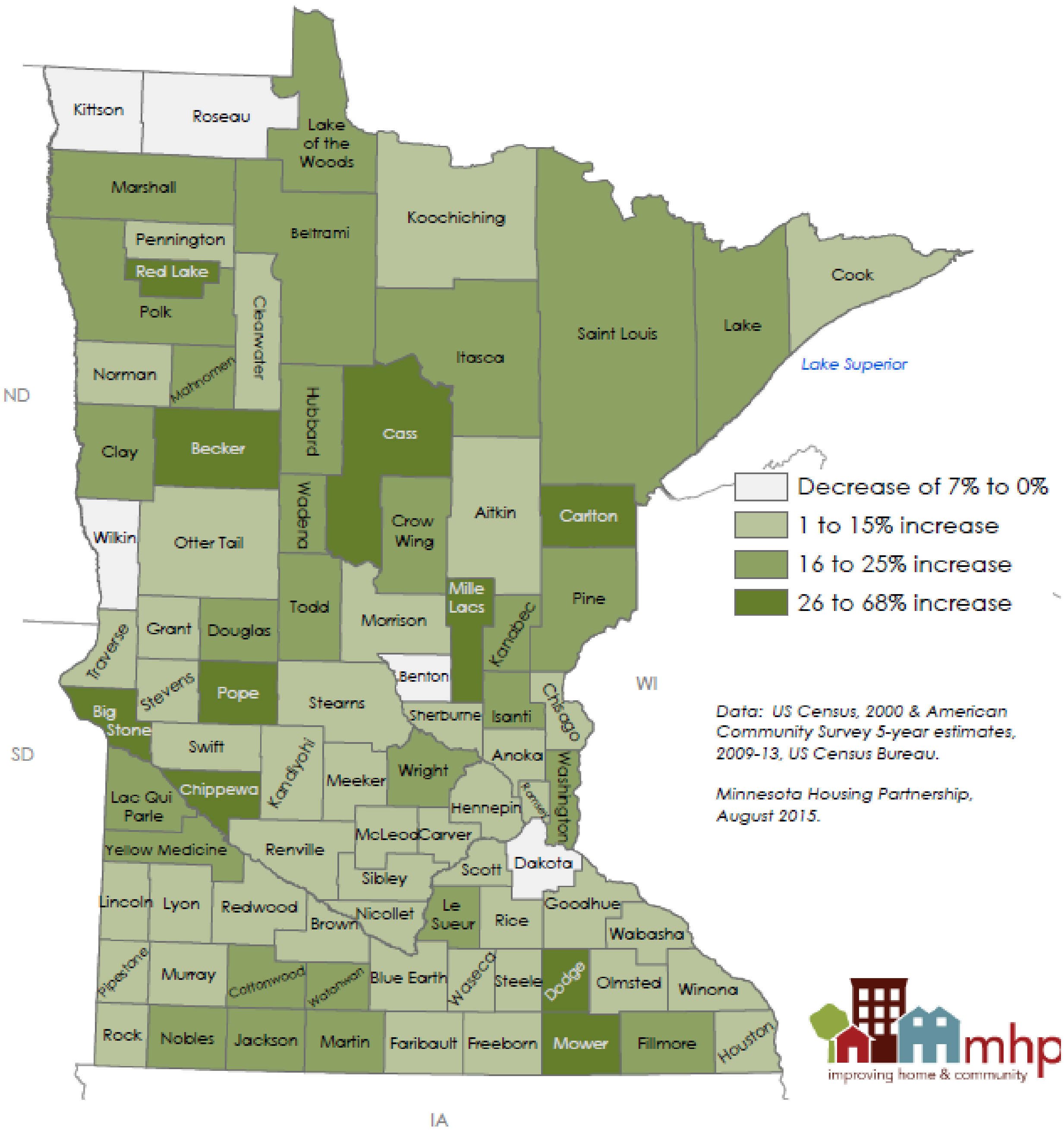
"The recent acquisition of the Columbus Flat Roll Division broadened our geographic reach and accelerated our product diversification. In addition, our organic growth projects in SBQ and rail also bring product diversification and growth opportunities in the coming years. Our focus on our customers, coupled with our market diversification and low-cost operating platforms support our ability to maintain our best-in-class performance. We believe we are poised to capitalize on meaningful growth opportunities, both near-term and in the future, that will benefit employees, customers and shareholders," concluded Millett.

ATTACHMENT 3

Percentage of Households Renting/Owning



Percent Change in Median Gross Rent, 2000 to 2009-13, Inflation Adjusted



Data: US Census, 2000 & American Community Survey 5-year estimates, 2009-13, US Census Bureau.

Minnesota Housing Partnership, August 2015.

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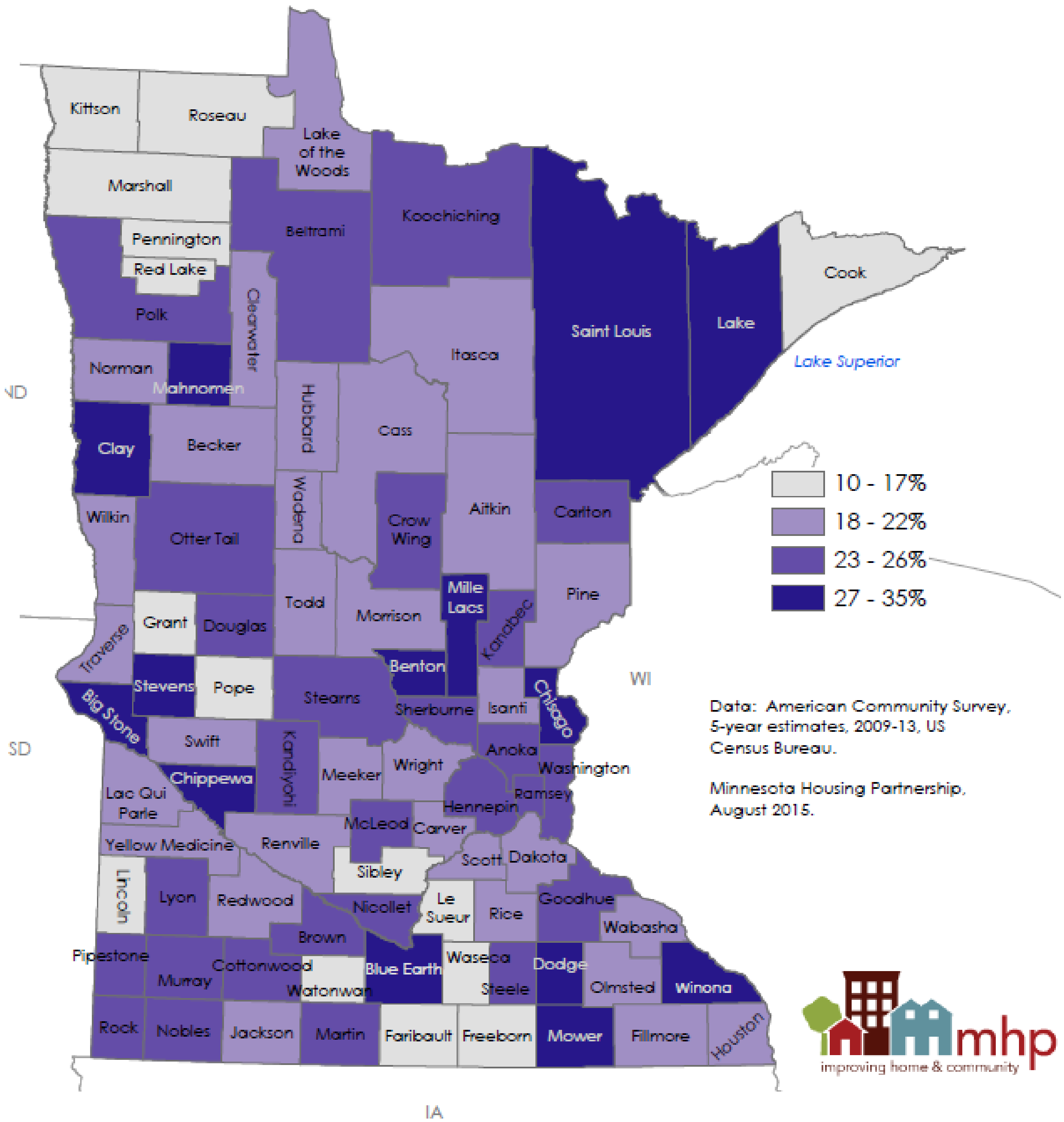
2015 County Profiles: A place to call home

Percent of Renter Households Paying 50% or More of Income for Housing



Data: American Community Survey, 5-year estimates, 2009-13, US Census Bureau.

Minnesota Housing Partnership, August 2015.

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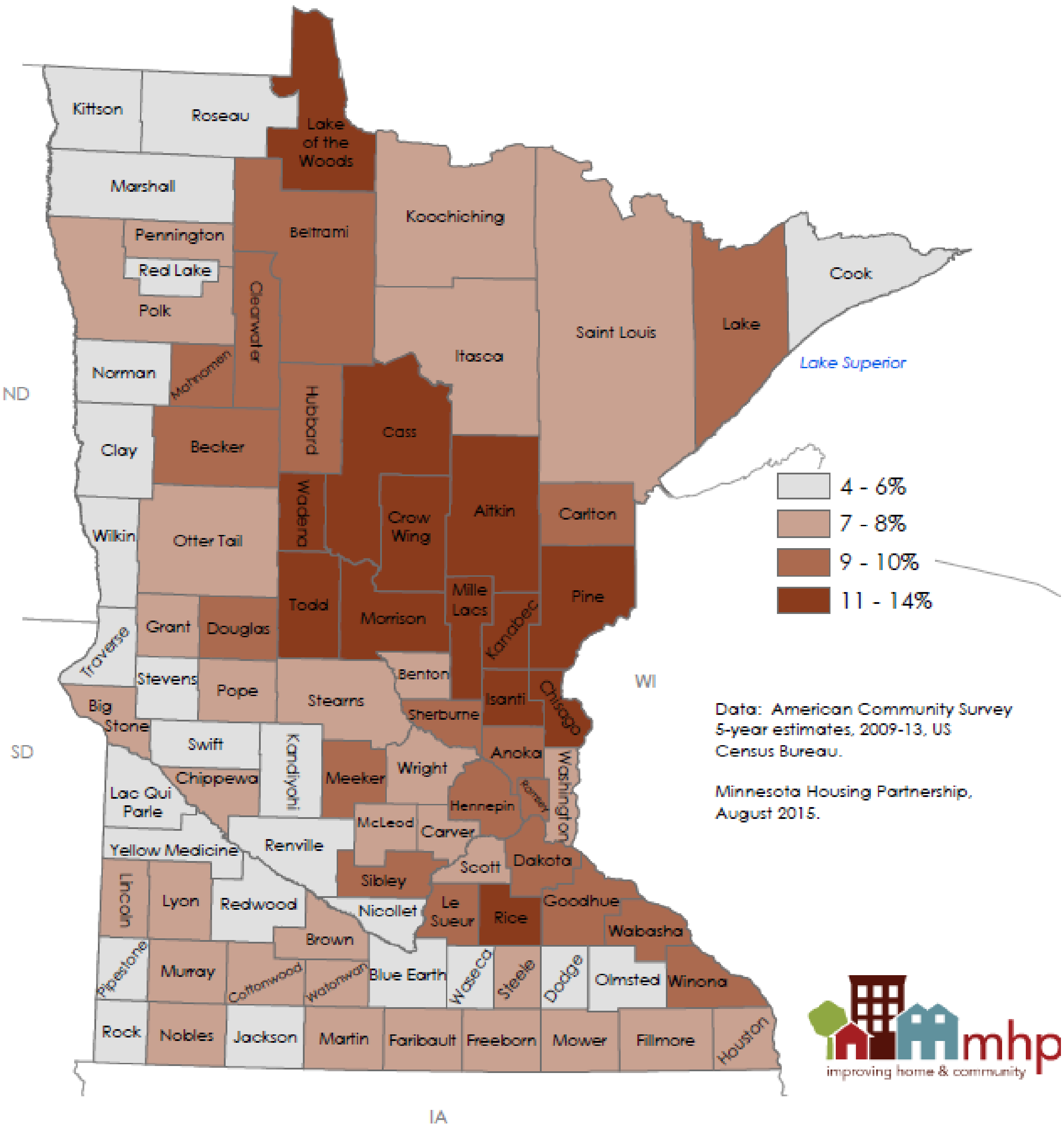
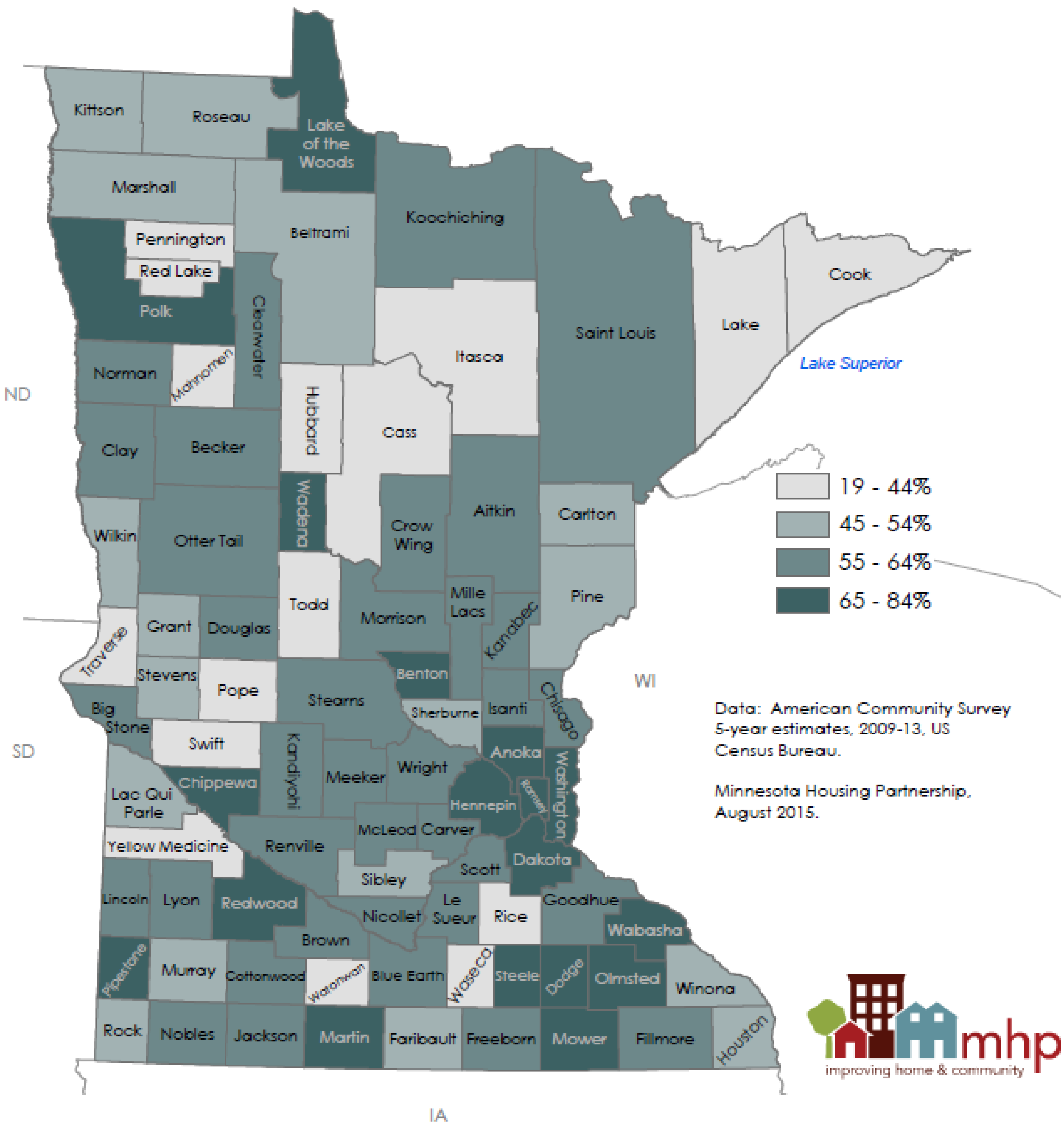
2015 County Profiles: A place to call home

Percent of Owner Households Paying 50% or More of Income for Housing



2015 County Profiles: A place to call home

Percent of Renter Households Headed by Seniors 65+ Paying 30% or More of Income for Housing



Data: American Community Survey 5-year estimates, 2009-13, US Census Bureau.

Minnesota Housing Partnership, August 2015.

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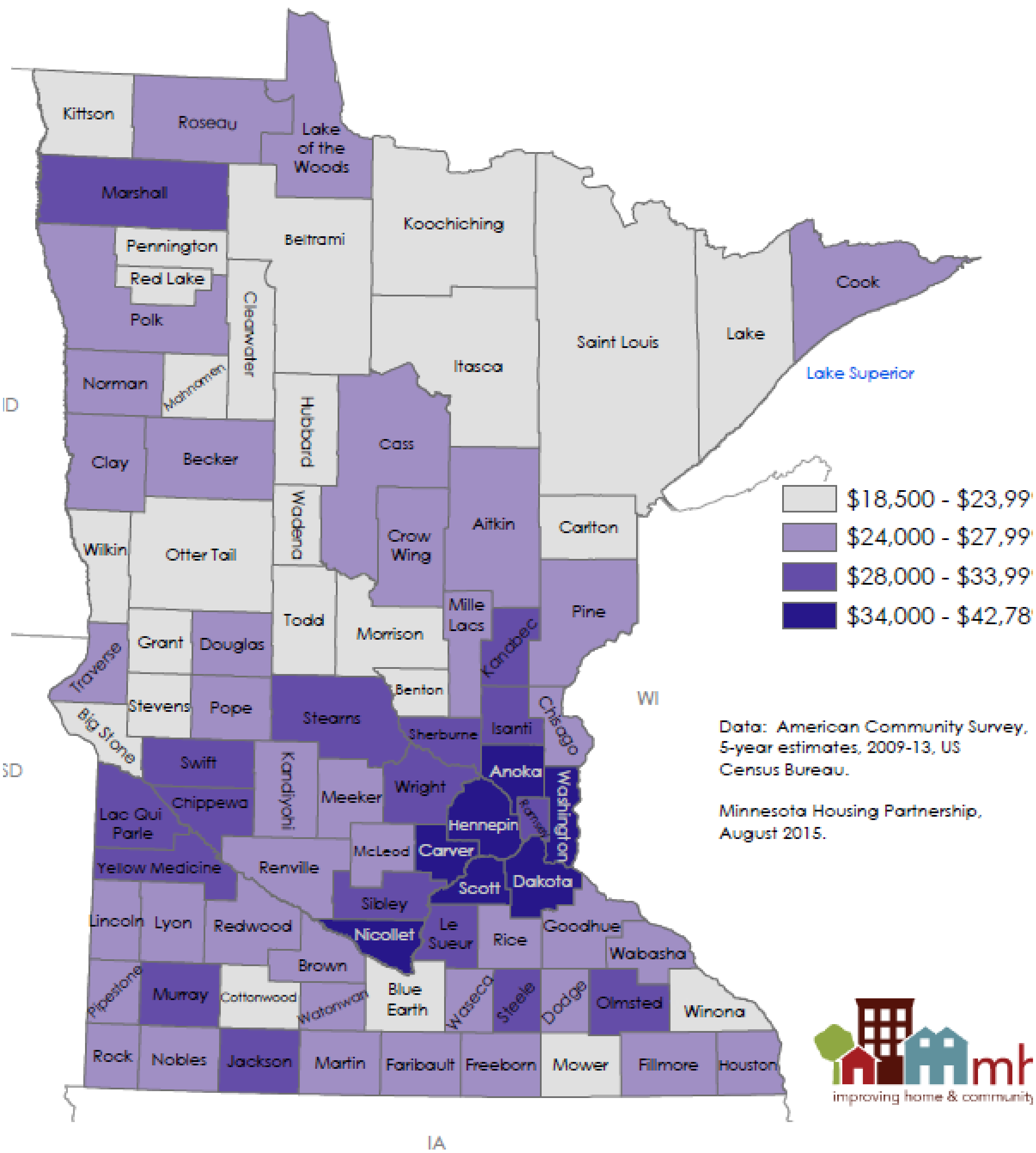
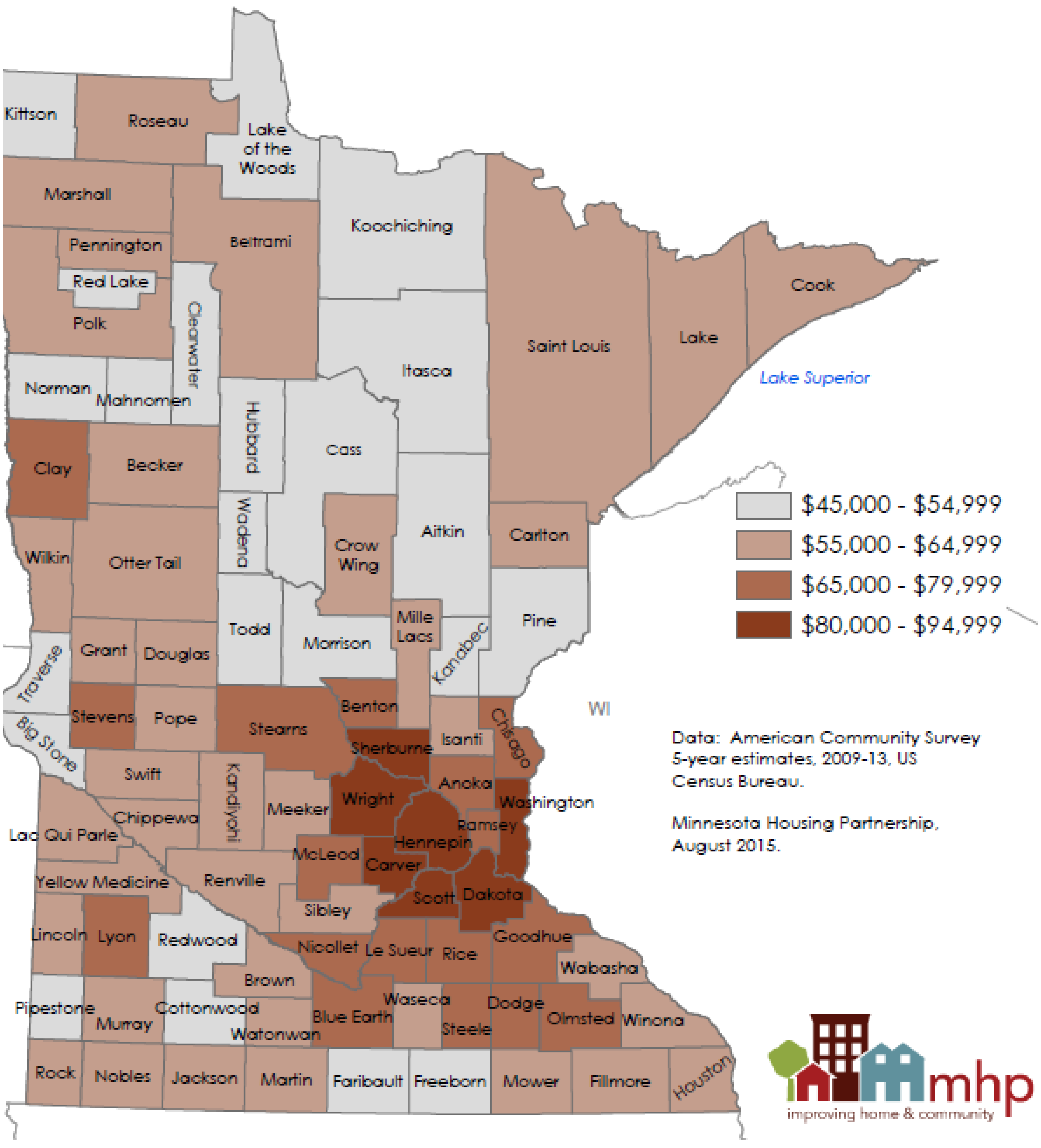
Median Household Income for Renters



Data: American Community Survey, 5-year estimates, 2009-13, US Census Bureau.

Minnesota Housing Partnership, August 2015.

Median Household Income for Owners



Data: American Community Survey 5-year estimates, 2009-13, US Census Bureau.

Minnesota Housing Partnership, August 2015.

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ATTACHMENT 4

Outreach

Outreach to eligible populations is a required EAP activity. The 2001 LIHEAP Clearinghouse document, *Outreach and Enrollment Strategies for LIHEAP* defines outreach as, "the various activities LIHEAP providers engage in to promote and increase program awareness with an attendant goal of increased program enrollment. Outreach may also include outreach activities designed to reach and enroll certain populations." A variety of outreach activities is necessary to target households with members most vulnerable to the effects of cold: young children, seniors, people with disabilities, veterans and the lowest income households with the highest energy burdens. Outreach activities are conducted at both the state and local levels. Effective outreach requires state leadership to develop a consistent message in conjunction with Service Providers, other low income-focused programs and energy vendors.

State Outreach Activities

State outreach activities include:

- Preparing and distributing a statewide application form for EAP.
- Putting the EAP application on the Commerce Web site.
- Maintaining a toll-free referral telephone line at 1-800-657-3710.
- Coordinating with fuel funds including Heat Share.
- Providing Service Providers with census data for locating specific populations within their service delivery area.
- Providing Language Line Services to Service Providers through the Minnesota Department of Administration, MN.IT Services (see Appendix 2A - *Language Line*).

Service Provider Outreach Activities

Service Provider Outreach Activities are divided into two categories:

1. **Informational Outreach**. This includes activities to make applications available and increase awareness of the Energy Assistance Program within Service Provider communities. It does not include making applications available within a Service Provider's agency offices.
2. **Accessibility Outreach**. This includes activities that help households to apply for EAP benefits (i.e., Primary Heat, Crisis, and ERR) when they would otherwise be unable to successfully do so without such assistance.

Service Providers are not required to distinguish between these two categories of outreach activities for funding purposes. The distinction is made in the *EAP Policy Manual* to help clarify the intended functions of outreach, and increase understanding of the difference between outreach and administrative activities.

Generally Required Outreach Activities

Service Providers must do local outreach to applicants and potential applicants and make EAP services accessible and responsive. The following are the basic local outreach activities Service Providers should conduct, as needed, to meet this requirement.

Informational Outreach Activities:

- **Make Applications Available.** This activity includes time to plan, prepare and distribute EAP applications in locations where EAP-eligible people are likely to gather or visit.

- **Outreach Events**. This activity includes time to plan, prepare and staff EAP outreach exhibits or booths at community events; and/or conduct EAP outreach workshops or other events.
- **EAP Advertisement**. This activity includes time to plan, prepare, produce and/or distribute advertisements for the Energy Assistance Program on radio, television, print or electronic media.
- **Program Access Activities**. This includes time spent publicizing the availability of the required accessibility services (as outlined in Chapter 2, under "Equal Access to Service"). It also includes encouraging households to apply through activities like reminding households with pre-logged applications to apply.
- **Provide Informational Materials**. This activity includes time to plan, prepare, customize, and distribute EAP informational materials. It also includes the actual costs for the material production of the EAP-related portion of informational materials. (Note: time and materials must be pro-rated for the EAP-related content of materials that also include non-EAP information.)
- **Cross Train in Service Provider Agency**. This activity includes time to prepare and conduct training of non-EAP local Service Provider agency staff (e.g., an EAP Service Provider agency's Head Start staff) to enable them to effectively distribute EAP information and refer clients to EAP.
- **Cross Train outside Service Provider Agency**. This activity includes time preparing for and conducting training of any outside individual, group, agency or organization (including energy vendors) to enable them to effectively distribute EAP information and refer clients to EAP.
- **Public Official Education**. This includes activities related to educating public officials about EAP.

Accessibility Outreach Activities:

- **Customer Service Training**. This activity includes time to prepare, conduct or attend formal trainings about customer service and problem solving. It may include the costs for contracting with training providers.
- **Cultural and Diversity Training**. This activity includes time to prepare, conduct or attend formal cultural and diversity trainings. It may include the costs to contract with training providers.
- **Application Assistance** (to meet a household's special need). This includes time spent working with households to complete an application or completing it on their behalf. This activity is intended only for households with a special need that prevents them from completing the application on their own without unreasonable hardship.[2]
- **Assistance Obtaining Application Verification Documents** (when a household can't themselves). This includes time spent to enable a household to obtain application verification documents (e.g., income and home ownership documentation) they would otherwise be unable to obtain on their own without unreasonable hardship. It does not include the time spent verifying already submitted information or the time

[2] Time spent processing completed applications, determining eligibility, entering information into eHEAT, etc. is always an administrative cost, regardless of household need. Time spent helping households who are able to complete their application without unreasonable hardship is an administrative cost.

spent verifying a household energy emergency (which are both administrative activities).[3]

Outreach reporting Activities

This includes time spent documenting, analyzing, evaluating and reporting on outreach activities.

Outreach to Targeted Populations and Collaboration

The LIHEAP statute requires outreach activities that ensure households with the highest home energy burdens or needs, including households with children under six, seniors (individuals 60 and over) or people with disabilities, are made aware of potential EAP benefits. Additionally, the State of Minnesota includes military veterans as a target population. Although all outreach does not need to focus on target populations, Service Providers must plan and conduct outreach activities designed specifically to target these households to meet this requirement.

Allowable A16 Expenses

A16 funds may be used to conduct, with or on behalf of EAP households, activities as described in this chapter that contribute towards reducing household energy need and enabling energy security. The costs for the actual time spent preparing, performing, recording and reporting on allowable A16 activities may be charged to A16, including the related portion of fringe benefits earned. The costs associated with providing A16 services, such as the costs for supplies, rental of office space, and other costs for direct program services, may be charged to A16 funds. Such costs will most often be pro-rated, or shared with other Service Provider programs or EAP administrative functions. Any indirect costs may not be charged to A16 funds; instead, they must be charged to administrative funds.

Activities Chargeable to A16 (examples):

- EAP staff time for:
  - Performing any of the activities listed in the Energy Self-Sufficiency or Outreach activities sections above, or for activities in an approved Proactive Energy Self-Sufficiency Plan.
  - Planning, preparing, documenting, or reporting on any eligible A16 activities. Note that the allowable costs for planning and preparing for an eligible A16 activity may only include implementation costs. Implementation costs are for time planning and preparing for a given session or event, not for the development or planning of an activity or Proactive ESS Plan more generally.
- Non-administrative costs of direct program services:
  - Supplies.
  - Equipment.
  - Travel.
  - Printing and postage.
  - Utilities and office space rental necessary for A16 staff performing direct program services.

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[3] See footnote #2.

ATTACHMENT 5

Responsive Energy Self-Sufficiency & Outreach Activities Report

To demonstrate program impact, maintain accountability, and identify best practices, Service Providers are required to report on their Responsive Energy Self-Sufficiency (ESS) and Outreach activities using this form. Please use the *Proactive Energy Self-Sufficiency Report (A16)* to report on approved Proactive ESS activities.

Agency Information

Service Provider name: AEOA – Arrowhead Economic Opportunity Agency

Outreach

Targeted Outreach:

Targeted Populations and Veterans Outreach: Describe the Service Provider's outreach activities and partnerships for reaching targeted populations (i.e. seniors, individuals with disabilities. and families with children under age six) and veterans during the program year.

We work with Head Start to attend events they host to do as much outreach as we can. We meet with Head Start teachers and in home workers in the early part of the year, make sure they have applications, know where to access more and know how to talk to clients about filling them out and getting them back to us. We suggest that often it is best that if the client completes it they (Head Start personnel) can turn it in to us. We attend all local Veteran's outreach events and touch base with the local Veteran's Outreach offices to make sure they have applications and information on what we can do and how to access our services.

We attend all Community Connects with Applications and information. This is often the best way to reach low income families and seniors as they seem to draw a lot of very local people. Some seem heavy with younger families and some with older people. The Community Connect in Lake county moves around each year as it is a heavily rural area with small towns. We have signs and applications in all the Senior Centers. We send application packets out to vendors, churches and community centers throughout our area. Range Mental health, all Social Service Offices, Workforce centers, schools and food shelves have applications.

Making applications available

Description of event, location and/or method	# of applications distributed
Community Connect Lake County	47 applications 42 flyer guidelines/FAQs
Community Connect Virginia	37 applications 62 guidelines
MN Power Expo	100 apps collected - 27 handed out but not completed on site
Virginia Home Show	42 Apps handed out
Perella Home Show - Hibbing	27 apps handed out
Lincoln Park Expo	17 apps handed out. It was after the ROOM date and apps were for access to WX

Providing informational materials

Description of informational material	# distributed
Veterans Standdown	27 Address for apps 43 guidelines/FAQs many many questions regarding app process 13 referrals to Wisc Social Services for WEAP
Duluth Backpack giveaway	47 addresses 117 guidelines countless questions

ATTACHMENT 6

Verso's Duluth paper mill may get caught in crossfire of company's struggles

If the name of the paper company Verso shows up in any Minnesota newspaper, you can be sure the news won't be good.

NOVEMBER 21, 2015 — 1:11PM

Lee Schafer

If the name of the paper company Verso shows up in any Minnesota newspaper, you can be sure the news won't be good.

Readers may remember Verso as the owner of a paper mill in Sartell that had a deadly explosion in 2012. Before that, there were layoffs.

After the explosion and fire, Verso closed the Sartell mill for good, eliminating the last 250 or so jobs and ending an operation with roots going back to 1907.

Last week there was news in Duluth that the big Verso paper mill there, with about 300 employees, might be sold. It's a productive mill that has already changed hands a few times since it was built in the 1980s, but the paper industry in Minnesota has been increasingly challenging.

What's interesting is that the Duluth mill has only been part of Verso since January, when the company completed its acquisition of a competitor called NewPage Holdings.

Verso was trying to respond to the continuing decline in the market for coated paper used for magazines and catalogs, off an additional 4.7 percent in the first half of this year, according to an industry research firm Verso quoted in August. Verso's idea was to consolidate operations with another big industry player. It planned to eliminate a lot of cost, at least $175 million per year. Not even a year into the deal, Tennessee-based Verso turned out to have been far too optimistic. The firm has "begun evaluating potential alternatives for the restructuring of our balance sheet," as a result of "cash flow and liquidity concerns."

What Verso is doing is essentially going through bankruptcy reorganization, whether or not it ever gets supervised by a court. Its stock is off the New York Stock Exchange and traded last week for about 2 cents a share.

For the first nine months of the current fiscal year, the company had an operating loss, meaning it lost money before expenses like interest were deducted, and operations consumed nearly $300 million in cash.

Papermaking is about as mature as an industry gets, but Verso is an upstart, not a traditional paper supplier. It's hard to imagine a traditional industrial company in any industry describing its business in filings at the Securities and Exchange Commission the way Verso just did, beginning at the very top:

"Within our organization, Verso Corporation, formerly named Verso Paper Corp., is the ultimate parent entity and the sole member of Verso Paper Finance Holdings One LLC, which is the sole member of Verso Paper Finance Holdings LLC, which is the sole member of Verso Paper Holdings LLC."

Got that? Verso Corp. owns a company called Verso, which owns a company called Verso, which owns yet another company called Verso. And that one may own some paper milling assets.

That first sentence makes a couple of things obvious. One, a half-hour wasn't nearly enough time to set aside to read this company's latest quarterly filing. And two, Verso is less a normal operating business than a deal, a creation of some financial managers.

Of course that is who put the company together, at Apollo Global Management, a large manager of private equity and other "alternative asset" funds based about a block from Central Park in New York.

Apollo created Verso in 2006 to acquire the coated paper business of International Paper. Verso has been a consistent financial performer since then, in that it routinely loses money.

The company Verso acquired just after the first of this year, NewPage, was also a big idea of a private equity manager. NewPage's private equity sponsor was Cerberus Capital Management, another big firm with Midtown Manhattan offices not quite a 15-minute walk from Apollo's.

Cerberus created NewPage to buy a paper business from MeadWestvaco Corp. in 2005. It later acquired the North American paper operations of the Finnish company Stora Enso, the deal that gave the company the paper mill in Duluth.

Apollo managed to take its paper company public before the financial storm hit in the fall of 2008 and all further flights into the public markets were canceled.

Cerberus also tried for a long time to get its paper company onto the public market, but it finally pulled its proposed offering. About a year later, in 2011, NewPage filed for bankruptcy protection.

There has been plenty of deal making since these big private equity firms pursued the paper market, but of all the deals and proposed deals there is one that stands out in the filings as a telling example of the thinking behind how these companies were put together.

This transaction actually took place in 2007, when Verso took out an additional $250 million loan. It was before the financial crisis, when borrowing that kind of unsecured money from financial institutions was still possible.

In its documents for the subsequent public stock offering in 2008, one of the main uses for the money to be raised from the public shareholders was paying back much of that $250 million loan.

What's unusual is that the $250 million loan wasn't taken out to buy anything productive, like new equipment. The loan proceeds went to the company owners as a distribution, a kind of a dividend. That's how Apollo got almost all of its money out of Verso.

It's a little like a weekend gambler going to the casino with $100 to play blackjack, winning right away and putting the $100 back in the wallet. Every additional hand for the rest of the night is really on the house.

That distribution alone doesn't make the Apollo managers the bad guys. It's a reasonable objective in a private-equity deal to minimize the amount of capital put at risk. Yet it does show just who actually had a lot to lose in Verso.

Those losses are being felt by people in places like Jay, Maine, where a Verso mill will lay off hundreds, and Wickliffe, Ky., where a Verso mill is being idled. And, of course, Sartell in central Minnesota.

ATTACHMENT 7

Struggling Verso considering sale of Duluth paper mill

By **News Tribune, news service reports** on Nov 16, 2015 at 5:56 p.m.

Verso Corp. is considering the sale of some of its paper mills — including the one in West Duluth — or filing for bankruptcy, the company announced Monday.

But the mill's workforce — about 300 employees — needn't be concerned about the immediate future, a company representative said.

"Right now, in the evaluation process, nothing is going to change," said Kathi Rowzie, vice president for communications and public affairs for Memphis, Tenn.-based Verso Corp. "The mill will continue to operate, business as usual."

Financial troubles have dogged the paper company since its acquisition of rival NewPage was finalized earlier this year.

In the company's third quarter financial results released Monday, it reported net sales had increased 123 percent from the third quarter of 2014, from $350 million to $782 million, a result of its acquisition of NewPage, but still reported a quarterly net loss of $111 million. In the 12 months ending Sept. 30, 2015, the company has lost $511 million, according to the company's filing.

On Monday the company said that, based on its current position and projections, "we anticipate that we will not have sufficient resources to fund our most significant future cash obligations" and must look at restructuring.

"We have begun discussions with certain of our creditor constituencies to explore potential restructuring alternatives," Verso announced in its Monday report detailing third-quarter results. "We also are exploring opportunities to raise funds through potential sales of certain of our mills and related facilities, which may include the Stevens Point (Wis.), Androscoggin (Maine) and Duluth mills. ...

"Our potential restructuring could occur in a consensual, out-of-court manner or through a court-supervised Chapter 11 bankruptcy proceeding. While we intend to actively pursue a potential restructuring and potential asset sales, there can be no assurance that any of these activities will occur on terms acceptable to us or at all."

The four mills not mentioned as possible sales targets are "more closely aligned" to Verso's business plan than the Duluth, Androscoggin and Stevens Point mills, Rowzie said. That doesn't mean the Duluth plant ultimately will be sold, she added.

"But we think it's a very attractive mill," she said. "It's gone through several ownerships and is still a successful mill and is still a productive mill and has a great, talented workforce."

In a letter to employees Monday, Verso CEO David Paterson wrote that the company is facing "a perfect storm of external factors that negatively affect our liquidity and cash flows, including impending financial obligations, an accelerated and unprecedented decline in demand for our coated paper products, and a significant increase in foreign imports resulting from a strong U.S. dollar relative to foreign currencies."

As a result, the company is considering a range of "restructuring alternatives," from the potential sale of some of its paper mills, including the mill along Interstate 35 in western Duluth, to filing for Chapter 11 bankruptcy protection.

"I know this news is unsettling, but be assured that Verso will continue to operate our business as usual as we explore a potential restructuring and potential asset sales," Paterson wrote.

Verso in January finalized its acquisition of former competitor NewPage Holdings — including the Duluth mill — in a deal worth $1.4 billion. At that time, the company reported about $3.5 billion in annual sales and about 5,800 employees in eight mills across six states.

Verso in August announced it would lay off 300 employees at its Androscoggin Mill in Jay, Maine, citing declining demand, energy costs and high property taxes. Verso also shuttered a paper mill in Kentucky in the past few months.

Last year, before the merger was complete, Verso closed its mill in Bucksport, Maine, putting 500 people out of work.

In September, the New York Stock Exchange delisted Verso's stock because of a precipitous fall in the value of its stock. The company is now traded in over-the-counter exchanges.

The market for the company's coated paper, the glossy kind used for magazines and catalogs, is being squeezed on two sides: from falling demand and increasing foreign imports, Verso spokesman Bill Cohen told the Portland Press Herald.

Cohen cited figures from the Pulp and Paper Products Council that report North American demand for coated paper had fallen 5.6 percent since the third quarter of 2014, and that net foreign imports had increased 16.8 percent in the same period.

"The fact is we have more coming in and decreasing demand," Cohen said.

Last month the U.S. Commerce Department determined that Canadian paper producers have been receiving unfair subsidies, allowing them to sell coated paper in the U.S. below-cost and eat into markets for American-made paper.

The Duluth mill, which began operations in 1987, makes coated paper used for catalogs, magazines, advertising inserts and other commercial products.

Verso CEO Paterson, in closing his letter Monday, tried to rally employees with a call to remain focused on fulfilling the company's future potential, and not the abstract challenges employees have no control over.

"As we move through this process, it's really important that we don't get distracted and lose sight of all the great things we've accomplished together over the last 11 months and how much opportunity lies ahead," he wrote. "No matter which direction this potential restructuring and potential asset sale process takes us, it's in everyone's best interests to continue our efforts to make Verso the very best company we can be."

The Portland (Maine) Press Herald contributed to this report.