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January 31, 2017

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/M-14-166

Dear Mr. Wolf:

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

In the Matter of Minnesota Power's Petition for Cancellation of the Erie Mine Service Schedule

The petition was filed on January 4, 2017 by:

David R. Moeller
Senior Attorney
Minnesota Power
30 West Superior Street
Duluth, MN 55802-2093

The Department recommends **approval** and is available to answer any questions.

Sincerely,

/s/ SAMIR OUANES
Rates Analyst

SO/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE

DOCKET No. E015/M-14-166

I. SUMMARY OF PROPOSAL

On January 4, 2017, Minnesota Power (MP or the Company) submitted a petition (Petition) requesting that the Minnesota Public Utilities Commission (Commission) approve the cancellation of the Erie Mine Site Service (EMSS) Schedule effective January 1, 2017.

II. BACKGROUND

A. *ERIE MINING AND LTV STEEL*

In the 1950s, Erie Mining Company built a taconite processing facility near its taconite mine on Lake Superior's north shore. Workers at the facility settled in the newly organized City of Hoyt Lakes, located six miles to the south. To power this operation and the town, Erie Mining Company built three 75-megawatt (MW) generators now known as the Taconite Harbor Energy Center (Taconite Harbor), along with a 138-kilovolt (kV) transmission line.

LTV Steel Mining Company (LTV) acquired Erie Mining Company, but eventually closed the Erie Mine site in 2001. This closure depressed the local economy. While transmission lines permitted Taconite Harbor to send some of its power to other cities, the 225-MW accredited generating capacity of Taconite Harbor exceeds the 200-MW transmission capacity by roughly 25 MW, leaving this capacity stranded.

Investors – including a subsidiary of Minnesota Power – bought the generators and transmission line.

B. *THE ORIGINAL ERIE MINE SITE SERVICE SCHEDULE*

On May 9, 2003, Minnesota Power proposed its EMSS Schedule.¹ The tariff offered lower electric rates for new industrial, mining, or manufacturing customers locating in the Erie Mine Site or, with Minnesota Power's approval, elsewhere around Hoyt Lakes, provided the

¹ Source: *In the Matter of a Request by Minnesota Power for Approval for Erie Mine Site Service Schedule*, Docket No. E-015/M-03-717.

customer would receive service via the 138 kV transmission line. The schedule would apply to no more than 25 MW, and would expire no later than December 31, 2013.

Minn. Stat. § 216B.03 directs a public utility to charge only rates that are “sufficient, equitable, and consistent in application to a class of consumers,” and bars rates that are “unreasonably preferential, unreasonably prejudicial, or discriminatory....” Minnesota Power argued that the tariff’s preferential rates were reasonable given 1) the fact that the tariff governed the 25 MW that could not be exported to benefit outside parties due to transmission constraints, and 2) the need to stimulate economic development in the region.

On August 20, 2003, the Commission issued its order approving the schedule given that the 25 MW could not be exported to benefit outside parties due to transmission constraints, and the tariff would not shift costs to other ratepayers.²

C. *THE ORIGINAL ELECTRIC SERVICE AGREEMENT*

In 2007, Mesabi Nugget negotiated an electric service agreement with Minnesota Power based on the EMSS Schedule. The agreement filed by MP on November 20, 2007 established terms under which the utility would provide electricity over the next ten years to Mesabi Nugget’s large-scale iron nugget production demonstration plant to be built at the former LTV facility.³

On February 20, 2008, the Commission issued an order approving this contract, and varying Commission rules to permit the rates to take effect as of January 1, 2008.⁴

D. *THE REVISED ERIE MINE SITE SERVICE SCHEDULE*

Under the original EMSS, Mesabi Nugget’s rates were subject to the original electric service agreement until December 31, 2013, and by Minnesota Power’s Large Power Service Schedule thereafter.

Under the revised schedule filed by MP on February 24, 2014, Mesabi Nugget was the only customer eligible to take service under the EMSS Schedule and its rates would be subject to a new electric service agreement beginning on January 1, 2014, and indefinitely thereafter.⁵ Once each year Mesabi Nugget could exercise its option to begin receiving power under any other applicable rate schedule.⁶

² *Id.*, Order (August 20, 2003).

³ Source: *In the Matter of a Petition by Minnesota Power for Approval of an Electric Service Agreement between Mesabi Nugget Delaware, LLC and Minnesota Power*, Docket No. E-015/M-07-1456.

⁴ Source: *Id.*, Order Approving Electric Service Agreement as Conditioned and Clarified (February 20, 2008); see also Order Denying Reconsideration (May 19, 2008).

⁵ Source: September 5, 2014 Order Approving Revised Schedule and Electric Service Agreement, and Varying Rule, Docket No. E-015/M-14-166 and Docket No. E-015/M-14-155.

⁶ *Id.*

On September 5, 2014, the Commission approved the modifications to the EMSS Schedule as requested by MP.⁷

III. DEPARTMENT ANALYSIS

In support of its request to cancel the EMSS schedule, MP stated the following in its current rate case proceeding:⁸

Minnesota Power proposes cancelling the EMSS Schedule because no customers currently take service under it and none are expected to be eligible in the future. In addition, the Taconite Harbor generating station that was the basis for EMSS Schedule pricing is no longer operating. The EMSS Schedule is applicable only to customers located at the former Erie Mine Site or another location in or around Hoyt Lakes, Minnesota, who commenced service under the Schedule by January 1, 2008. The EMSS Schedule Generation Capacity Charge and Energy Charge are based on Minnesota Power's Taconite Harbor generating station costs.

The APPLICATION section of the EMSS Schedule specifies that if the Company chooses to retire the Taconite Harbor generating station or convert it to a fuel source other than coal, service under the EMSS Schedule shall terminate on January 1 of the next calendar year. In September 2016, the last two operating units at Taconite Harbor (Units 1 and 2) were taken offline and economically idled as part of Minnesota Power's *EnergyForward* strategy approved by the Commission. Taconite Harbor Unit 3 was previously retired in 2015. Although Units 1 and 2 are idled rather than retired, they are in dry layup status and would only be restarted temporarily if needed during a long-lasting, major regional power supply disruption. After 2020 if they are restarted, it would be with a fuel source other than coal. Therefore, Minnesota Power proposes to cancel the EMSS Schedule.

...

Each year since the EMSS Schedule was instituted, Minnesota Power has submitted an annual compliance filing that includes an updated Generation Capacity Charge based on Taconite Harbor budget data for the upcoming calendar year. In the December 2016 annual filing, Minnesota Power will request to terminate the EMSS Schedule effective January 1, 2017.

As a result, the Department concludes that the cancellation of the EMSS schedule would not affect any customer and is consistent with the fact that the basis for approving the EMSS

⁷ *Id.*

⁸ Source: November 2, 2016 Direct Testimony of Marcia A. Podratz at 76 in Docket No. E015/GR-16-664.

Schedule is no longer valid since the excess 25 MW of generating capacity in the area no longer exists.

The Department recommends approval of MP's request to cancel the EMSS Schedule.

IV. DEPARTMENT RECOMMENDATION

The Department recommends approval of MP's request to cancel the EMSS Schedule.