BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David Boyd	Commissioner
Nancy Lange	Commissioner
J. Dennis O'Brien	Commissioner
Betsy Wergin	Commissioner

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

SERVICE DATE: June 21, 2013

DOCKET NO. E-015/M-13-354

In the Matter of Minnesota Power's Request for Approval of an Electric Service Agreement Between Minnesota Power and Enbridge Energy, Limited Partnership

The above entitled matter has been considered by the Commission and the following disposition made:

Approved the proposed Agreement between Minnesota Power and Enbridge.

The Commission agrees with and adopts the recommendations of the Department of Commerce, which are attached and hereby incorporated into the Order. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

This document can be made available in alternative formats (i.e. large print or audio) by calling 651.296.0406 (voice). Persons with hearing or speech disabilities may call us through Minnesota Relay at 1.800.627.3529 or by dialing 711.

85 7th Place East, Suite 500, St. Paul, MN 55101-2198
main: 651.296.4026
tty: 651.296.2860
fax: 651.297.7891
www.energy.mn.gov

May 23, 2013

PUBLIC DOCUMENT – TRADE SECRET DATA HAS BEEN EXCISED

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-13-354

Dear Dr. Haar:

Attached are the PUBLIC comments of the Minnesota Department of Commerce, Division of Energy Resources, in the following matter:

> Minnesota Power's Request for Approval of an Electric Service Agreement Between Minnesota Power and Enbridge Energy, Limited Partnership.

The petition was filed on May 1, 2013. The petitioner is:

> David Moeller
> Attorney
> Minnesota Power
> 30 West Superior Street
> Duluth, MN 55802

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

Sincerely,

/s/ EILON AMIT
Statistical Analyst

EA/sm
Attachment

PUBLIC DOCUMENT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

DOCKET NO. E015/M-13-354

I. BACKGROUND

This Petition seeks Minnesota Public Utilities Commission (Commission) approval of an Electric Service Agreement (Agreement or ESA) between Minnesota Power and Enbridge Energy, Limited Partnership (Enbridge). The Agreement provides for Enbridge to continue to purchase all of its electric service requirements for its pipeline facilities under Minnesota Power's Large Light & Power Service Schedule (the LLP Schedule). Enbridge's previous electric service agreement that placed it on the LLP Schedule was approved by the Commission on December 22, 2009 in Docket No. E015/M-09-891. This new Agreement is the result of Enbridge being in the process of adding new pumping capacity at its station in Deer River, Minnesota. The Agreement also governs electric service to Enbridge's pumping station facilities at Floodwood, which the Commission previously approved being conjunctively billed with the Deer River facilities. Furthermore, this Agreement is a long-term agreement with Enbridge agreeing to take service through at least December 31, 2020. Under the current electric service agreement, Enbridge may cancel with one-year notice to Minnesota Power.

The Agreement is scheduled to become effective on the first day of the calendar month following an issuance of a Commission Order approving the Agreement. The Agreement also allows either party to terminate it after December 31, 2020, by providing at least one year notice prior to the effective date of termination.

Enbridge's existing peak load is about **[TRADE SECRET DATA HAS BEEN EXCISED].** Under the proposed new Agreement, Enbridge's peak load is projected to increase to about **[TRADE SECRET DATA HAS BEEN EXCISED]** MW.

II. DEPARTMENT ANALYSIS

A. INTRODUCTION

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. MP's other ratepayers must not be negatively affected by the ESA.
2. The rates under the proposed ESA must not be discriminatory; namely, the rate would be available to any other Large Light and Power customer of MP facing similar circumstances to those of Enbridge.
3. The proposed rate and conditions of service do not violate any rates in MP's Electric Rate Book.

B. ANALYSIS

First, the Minnesota Department of Commerce, Division of Energy Resources (Department) will analyze each of the significant amendments proposed in the new ESA in comparison to the existing ESA between MP and Enbridge. Second, based on its analysis the Department will assess whether the proposed ESA meets the conditions stated by the Department as necessary conditions for its approval. Finally, the Department will provide its conclusions and recommendations.

1. The Proposed Amendments

a. Section 2: Term of Agreement

The Company's petition inaccurately states that the one-year cancellation period is the same as Enbridge's current electric service agreement, which the Commission approved in 2009.

The Order referred to by the Company is the Commission Order dated December 22, 2009 (Docket No. E015/M-09-891). Point 1 of the referenced Commission Order states:

> The Commission approves the electric service agreement and supplement between Minnesota Power and Enbridge, as filed on July 30, 2009, including the provision allowing Enbridge to exit the LLP service schedule one year after giving notice of intent to exit.

Furthermore, Point 2 of the Commission Order states:

> The Commission recognizes and clarifies 1) that if in the future Enbridge exits the LLP service schedule to be served under the LP Service Schedule as provided for in the electric service agreement approved in this Order, Minnesota Power and Enbridge will be required to execute a new electric service agreement, subject to Commission approval, and 2) that the standard cancellation period under the LP service schedule is four years.

The Department notes that both the LP and the LLP Service Schedules require a minimum cancellation notice of 4 years.

Thus, the Commission's December 22, 2009 Order waived the four-year pre-notification notice of service termination only for the special case in which Enbridge would substitute being served under the LP Service Schedule for the LLP Service Schedule.

Based on the above discussion, the one-year exit notice provision as appeared in the proposed ESA is counter to the provisions in the LLP Service Schedule and was not previously approved by the Commission. To resolve this issue and to maintain consistency with the Commission's December 22, 2009 Order, the Department proposes the following amendment to Section 2 (TERM OF AGREEMENT) of the proposed ESA.

> In the case Enbridge intends to switch service from LLP schedule to LP schedule or MP intends to require Enbridge to be served under the LP schedule, ~~E~~either party may terminate this Agreement by written notice to the other delivered at least one year prior to the effective date of termination as set forth in that written notice (the "agreement termination date"), provided, however, that the agreement termination date shall not be effective prior to 11:59 p.m. on December 31, 2020.

For the complete paragraph of Section 2, See pages 2 and 3 of the ESA.

Under this proposed amendment, MP's ratepayers would not be harmed in case Enbridge determines at some future time to switch from the LLP Service Schedule to the LP Service Schedule, because in such a case MP would continue to recover its cost of serving Enbridge.

b. Section 3 (B): Pilot Rider for LLP Time-of-Use Service

This new provision allows Enbridge to take service under the terms of the Pilot Rider for Large Light and Power Time-of-Use Service. This Pilot Rider became available as a result of the Commission's Order on August 11, 2011 in Docket No. E015/M-11-311. This Pilot is available to any MP customer taking service under the LLP Service Schedule, and is not unique to the proposed ESA.

c. Section 4 (A): Service Extension Costs

Section VI, Page No. 3.8 Power Electric Book, Volume 1 defines the terms of service extension. Under this section, MP, at its own expense, makes extensions where the revenue therefrom is sufficient in the Company's opinion, to justify the necessary expenditure. To cover the cost of the required service extension (substation and transmission line upgrades), Enbridge is required to provide the following guarantees:

i. Service Extension Guarantee at the amount of **[TRADE SECRET DATA HAS BEEN EXCISED]** over the calendar years 2016-2020 to be paid at the rate of **[TRADE SECRET DATA HAS BEEN EXCISED]** per year.
ii. A Minimum Annual Energy Usage of **[TRADE SECRET DATA HAS BEEN EXCISED]** MWh per year.

There is also a provision in the ESA that any annual energy usage above the **[TRADE SECRET DATA HAS BEEN EXCISED]** MWh per year may be credited to the previous year or the next years. If, after using this annual potential credit, a forward or backward one-year energy usage is still below **[TRADE SECRET DATA HAS BEEN EXCISED]** MWh, Enbridge is required to pay **[TRADE SECRET DATA HAS BEEN EXCISED]** per MWh of deficit up to a maximum annual amount of **[TRADE SECRET DATA HAS BEEN EXCISED]**.

As a matter of principle, if the incremental revenues associated with the service extension are greater than the costs of the service extension then MP's other ratepayers benefit from the increased level of service proposed by the ESA.

The incremental revenues include the Service Extension Guarantee and the incremental revenues associated with Enbridge's Minimum Energy Usage Guaranty.

The total cost of the service extension is **[TRADE SECRET DATA HAS BEEN EXCISED]** million.[1] The incremental revenues are the **[TRADE SECRET DATA HAS BEEN EXCISED]** Service Extension Guarantee and the additional net revenues associated with the Minimum Annual Energy Usage.

[1] See Attachment 1 of these comments.

Based on the Company's response to the Department's Information Request No. 2, the incremental annual energy to be purchased by Enbridge under the proposed ESA is **[TRADE SECRET DATA HAS BEEN EXCISED]** MWh. The average energy rate charged to Enbridge in 2012 under the LLP Service Schedule was **[TRADE SECRET DATA HAS BEEN EXCISED]** per MWh. The energy cost including fuel and variable Operation and Maintenance (O&M) cost is **[TRADE SECRET DATA HAS BEEN EXCISED]** per MWh. Therefore, the incremental net revenue per MWh under the proposed ESA is **[TRADE SECRET DATA HAS BEEN EXCISED]**. The incremental energy to be purchased by Enbridge under the proposed ESA is **[TRADE SECRET DATA HAS BEEN EXCISED]** MWh annually. Therefore, the incremental revenues associated with Enbridge's increased energy purchases are **[TRADE SECRET DATA HAS BEEN EXCISED]** annually.

Based on the information provided by the Company and the Department's analysis above, the incremental costs associated with the ESA are **[TRADE SECRET DATA HAS BEEN EXCISED]** of service extension costs plus **[TRADE SECRET DATA HAS BEEN EXCISED]** of energy costs for a total of **[TRADE SECRET DATA HAS BEEN EXCISED]**. The incremental revenues are **[TRADE SECRET DATA HAS BEEN EXCISED]** of Service Extension Guarantee plus **[TRADE SECRET DATA HAS BEEN EXCISED]** of incremental energy revenues for a total of **[TRADE SECRET DATA HAS BEEN EXCISED]**. Since the estimated incremental revenues exceed the estimated incremental costs, the Department concludes that the service extension would benefit MP's other ratepayers.

d. Other Provisions in the ESA

The LLP Service Schedule is applicable for load up to 50,000 kW. Section 6, (A) of the ESA waives this requirement for any month in which Enbridge's demand exceeds 50,000 kW.

The Company explains that Enbridge's annual load factor is much lower than a typical MP Large Power customer.[2] Therefore, switching Enbridge from LLP Service to the LP Service could be detrimental to Enbridge's operation. The Department agrees with provision 6(A) as long as such an exception is permitted by the rules in MP's Electric Rate Book. MP's electric Rate Book – Volume 1, Section VI, Page No. 3.22, Point 72 (conflict) states:

[2] MP expects Enbridge's future annual load factor to be about **[TRADE SECRET DATA HAS BEEN EXCISED]** percent. In comparison, the average annual load factor for MP's Large Power customers is about **[TRADE SECRET DATA HAS BEEN EXCISED]** percent.

> In case of conflict between any provision of these approved Service Regulations, Customer's Service Agreement or a Rate Schedule, the provision of the Service Agreement takes precedent, followed by the provision of the Rate Schedule.

Therefore, based on Section XII, Point 72 of MP's Rate Book, allowing Enbridge to remain on the LLP Service even when exceeding 50,000 kW is permitted. The Department notes, however, that such a provision must be available to any MP LLP customer facing circumstances similar to Enbridge's circumstances.

The Department also concludes that since the incremental revenues associated with the service extension exceeds the service extension's incremental cost (See Section C of these comments), MP's ratepayers would benefit from Enbridge exceeding 50,000 kW.

2. Necessary Conditions for Commission Approval

a. Does the proposed ESA negatively affect MP's ratepayers?

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

b. Are the Rates and Conditions of Service, under the proposed ESA available to other MP Large Light and Power Customers facing similar circumstances to those of Enbridge?

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

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

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

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

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

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

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

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

c. Do the proposed rate and conditions of service violate any rules of MP's Electric Rate Book?

As the Department discussed in Section II, Part d of these comments, MP's Rate Book, Section XII, Point 72 allows MP to waive the LLP's cap of 50,000 kW if such a provision is included in the proposed ESA. Therefore, the Department concludes that the proposed rate and conditions in the ESA do no violate any rule contained in MP's Rate Book.

III. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

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

1. The Agreement is in the public interest because:

    a. For each year of the ESA, the revenues received from Enbridge would be higher under the proposed ESA than under the existing ESA.
    b. The extension of the Agreement to at least December 31, 2020 would benefit MP's other ratepayers by lowering their share of MP's total fixed costs.

B. RECOMMENDATIONS

Based on its review and analysis of MP's petition and based on its conclusions, the Department recommends that:

1. The Commission approve the proposed Agreement between MP and Enbridge.

/sm