

E-015/M-89-387 APPROVING ELECTRIC SERVICE AGREEMENT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of Minnesota Power's Petition
for Approval of a Proposed Electric Service
Agreement with Potlatch Corporation

ISSUE DATE: September 21, 1989

DOCKET NO. E-015/M-89-387

ORDER APPROVING ELECTRIC
SERVICE AGREEMENT

PROCEDURAL HISTORY

On May 2, 1977, Minnesota Power (MP) and Potlatch Corporation (Potlatch) entered into an Electric Service Agreement for the provision of Large Light and Power service to Potlatch's Cloquet facility. The agreement established Potlatch's contract amount at 9,000 KW for demand charge billing purposes with an additional 5,000 KW available as standby capacity.

Potlatch expanded its operations and now requires a contract demand in excess of 10,000 KW. This level of demand requires that Potlatch receive service under MP's Large Power Rate Schedule. MP and Potlatch entered into a new electric service agreement on May 31, 1989, that reflects Potlatch's increased demand.

On June 2, 1989, MP filed a petition with the Minnesota Public Utilities Commission seeking approval of the proposed agreement.

On July 24, 1989, the Minnesota Department of Public Service (the Department or DPS) filed its report of investigation and recommendation in this matter. The Department recommended that the Commission approve MP's petition. No other party commented on the proposal.

The Commission met on August 22, 1989 to consider this matter.

FINDINGS AND CONCLUSIONS

The Commission must decide whether to approve the proposed electric service agreement which changes the terms and conditions under which Potlatch will receive electric service.

Minn. Stat. § 216B.05, subd. 2 (1988) governs this proceeding. It provides that:

Every public utility shall file with and as part of the schedule all rules that, in the judgment of the commission, in any manner affect the service or product, or the rates charged or to be charged for any service or product, as well as any contracts, agreements or arrangements relating to the service or product or the rates to be charged for any service or product to which the schedule is applicable as the commission may be general or special order direct.

MP stated that the agreement contains the standard contract provisions it has with other Large Power customers. The agreement provides that Potlatch's contract amount will be 13,700 KW through April 1989, when it will increase to 14,700 KW through December, 1991. Thereafter, Potlatch's contract amount will be 9,000 KW.

The Commission finds that the terms and conditions of this contract are consistent with other standard Large Power contracts except in two respects. The Commission will approve those common terms and examine the two areas in which this agreement differs from other standard Large Power contracts. First the effective date of this contract is May 1, 1988, more than a year before it was signed. Second, the term of the contract is five years rather than the more standard ten-year term.

Effective Date

The Commission finds that an effective date of May 1, 1988 is reasonable in this instance.

Potlatch has been a Large Light and Power customer of MP for many years, with a monthly demand near, but below, the 10,000 KW threshold for the Large Power class. However, Potlatch has been recognized as a customer whose electrical needs occasionally qualify it as a Large power customer.

In MP's 1982 rate case, the Commission recognized Potlatch as a "transition" customer. In the Matter of the Petition of Minnesota Power and Light Company for Authority to Change Its Schedule of Electric Rates for Retail Customers in Minnesota, Docket No. E-015/GR-81-250 (April 30, 1982) at 44-45.

Potlatch would be billed at the standard Large Light and Power rate, except for any month it exceeded the 10,000 KW threshold. For those months it would be billed at the Large Power rate, without the demand ratchet or related provisions of the Large Power tariff being imposed.

Also, in MP's most recent rate case, the Commission considered Potlatch to be a Large Power

customer with a demand of approximately 14,000 KW in determining revenue requirements for MP. In the Matter of the Petition of Minnesota Power & Light Company, d/b/a Minnesota Power, for Authority to Change Its Schedule of Rates for Retail Electric Service in the State of Minnesota, Docket No. E-015/GR-87-223 (March 1, 1988).

The Commission notes that Potlatch had a major expansion in May, 1988 with correspondingly higher contract demand levels which met the threshold for the Large Power customer class at that time. The Commission finds that MP could have appropriately reclassified Potlatch at that time. Minn. Rules, part 7820.3200 contemplates such reclassification.

Potlatch's usage needs and history support the proposed effective date of this agreement. The Commission will accept May 1, 1988 as the effective date for the modifications to the terms and conditions under which Potlatch receives electric service.

Term of Contract

As stated above the proposed electric service agreement has a five year term, rather than the more standard ten-year term for such agreements. In MP's most recent general rate case, the Commission approved an MP proposal to make a ten-year contract term part of the Large Power rate schedule. However, at p.95, the Commission wrote:

[R]ecognizing that some situations could present convincing reasons for less restrictive requirements, the Commission concludes that these provisions should be subject to waiver with the approval of the Commission for good cause shown by the customer or MP.

The Commission finds that MP has shown good cause for the shorter contract term proposed here. Potlatch has been a customer of MP's for over fifteen years. Further, Potlatch's incremental increase in contract demand of 5.7 MW is substantially below the 10 MW threshold for establishing service for a new Large Power customer. The Commission believes that Potlatch's increase in contract demand is a short-term adjustment with the demand level returning the original 9 MW level for the last year and a half of the agreement. The Commission concludes that Potlatch's existing customer status and short-term increase in demand support the five year term of the proposed agreement and will approve it.

ORDER

1. The Commission hereby approves the electric service agreement between Minnesota Power and Potlatch Corporation as described above.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)