ISSUE DATE: January 27, 1997

DOCKET NO. E-015/M-96-1352

ORDER APPROVING AMENDED CONTRACT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs	Chair
Marshall Johnson	Commissioner
Dee Knaak	Commissioner
Mac McCollar	Commissioner
Don Storm	Commissioner

In the Matter of a Petition by Minnesota Power for Approval to Offer an Electric Service Agreement and a Competitive Rate for Boise Cascade Corporation

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PROCEDURAL HISTORY

On July 30, 1990, the Commission issued an Order allowing Minnesota Power to offer a competitive rate, pursuant to Minn. Stat. § 216B.162, for the Boise Cascade Corporation (Boise) paper mill expansion. On March 18, 1994, the Commission approved an amendment to the Minnesota Power/Boise competitive rate agreement. That amendment, and the competitive rate, is scheduled to expire on December 31, 1998.

On November 1, 1996, Minnesota Power filed a petition seeking approval of two amendments to the Boise competitive rate agreement, and of the terms of the competitive rate contained in the agreements.

On December 12, 1996, the Department of Public Service (the Department) filed comments in favor of the amendments and the competitive rate. The Department stated that the proposed contract is for a six year period, and thus exceeds the five year time limit of Minn. Stat. § 216B.162, subd. 4(3). Under Minn. Stat. § 216B.162, subd. 7, however, the Commission may waive one or more of the competitive rate statutory provisions if the waiver would serve the public interest.

On December 23, 1996, Minnesota Power filed reply comments stating that the competitive rate is being extended for four, not six, years. At the January 15 Commission meeting, Minnesota Power clarified that it does not object to the Commission's considering the contract term to be six years, as long as the Commission waives the five year term limitation under Minn. Stat. § 216B.162, subd. 4(3).

On December 30, 1996, the Department filed supplemental comments. The Department corrected some of its previous calculations and included the potential economic impact of the standby power Boise would need if it pursued cogeneration instead of the competitive rate. After these adjustments, the Department continued to recommend approval of the parties' amended competitive rate agreement.

On January 15, 1997, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. FACTUAL BACKGROUND

Minnesota Power supplies power and energy for Boise's paper mill operation in International Falls, Minnesota. Boise has the option of installing a turbine-generator to produce its own energy for the paper mill operation.

In July, 1996, the parties began discussing the possibility of an extension of their current competitive rate agreement, due to expire on December 31, 1998. Minnesota Power and Boise negotiated two amendments to their electric service agreement. The first, known as the Extension Amendment, provides for a four year extension of the existing agreement from December 31, 1998, through December 31, 2002.

The second amendment, known as the Energy/ IPS Amendment, provides for a reduction in the energy charge which Boise currently pays for energy associated with the generation deferral capacity, beginning January 1, 1997, through December 31, 1998.

The second amendment also incorporates the provisions of Minnesota Power's Rider for Large Power Incremental Production Service (the IPS Rider) into the electric service agreement. The Commission approved this Rider for Minnesota Power on July 24, 1995, in Docket No. E-015/M-95-596. The IPS Rider allows a Large Power customer with an existing service contract of at least four years to exceed its pre-determined demand threshold by ten percent without incurring additional demand charges. The additional energy is priced at Minnesota Power's hourly incremental energy cost plus $0.01/kWh. Since Boise is a Large Power customer and is entering into a four year contract with Minnesota Power, Boise is eligible for the IPS Rider; the Energy/IPS Amendment acknowledges this fact.

II. ANALYSIS OF THE PROPOSAL UNDER THE COMPETITIVE RATE CRITERIA

A. Minn. Stat. § 216B.162, subd. 4 lists seven criteria for Commission approval of a competitive rate.

1. That the minimum rate for the schedule recover at least the incremental cost of providing the service, including the cost of additional capacity that is to be added while the rate is in effect and any applicable on-peak or off-peak differential.

The Department found that Minnesota Power will recover its incremental cost of serving Boise in each year of the competitive rate contract. To estimate the incremental cost of generation capacity, the Department used Minnesota Power's cost of purchasing power from the Mid-Continent Area Power Pool.

Although the Department was able to analyze the Company's incremental costs of providing service, the Commission notes that Minnesota Power supplied minimal support for its capacity costs and energy cost estimates for the last two years, and failed to consider standby costs in its filing. The Commission expects Minnesota Power to supply more complete cost information in future competitive rate filings.

2. That the maximum possible rate reduction under a competitive rate schedule does not exceed the difference between the electric utility's applicable standard tariff and the cost to the customer of the lowest cost competitive energy supply.

Minnesota Power's competitive rate is not lower than the lowest cost competitive energy supplier, a turbine-generator at the International Falls mill.

3. That the term of a contract for a customer who elects to take service under a competitive rate must be no less than one year and no longer than five years.

Under the terms of the contract amendments, the competitive rate would be in effect from January 1, 1997 through December 31, 2002. Therefore, although Minnesota Power proposed a four-year contract extension, the Commission agrees with the Department that the rate is actually in effect for six years and thus exceeds the statutory time limit.

The Commission finds, however, that the competitive rate is in the public interest and should be approved. The Commission will therefore waive the statutory time limit to approve the contract for a six year term. The Commission grants the waiver pursuant to Minn. Stat. § 216B.162, subd. 7, under which the Commission may waive one or more of the competitive rate statutory provisions if the waiver would serve the public interest.

4. That the electric utility, within a general rate case, be allowed to seek recovery of the difference between the standard tariff and the competitive rate times the usage level during the test year period.

Nothing in the terms of the agreement would prevent Minnesota Power from seeking recovery of the difference between the standard tariff and the competitive rate in a future rate case.

5. A determination that a rate within a competitive rate schedule meets the conditions of section 216B.03, for other customers in the same customer class.

Minn. Stat. § 216B.03 forbids discriminatory rates. This offering is not discriminatory because it would be available to other customers in similar situations.

6. That the rate does not compete with district heating or cooling provided by a district heating utility as defined by section 216B.166, subdivision 2, paragraph (c).

The proposed competitive rate does not conflict with district heating or cooling.

7. That the rate may not be offered to a customer in which the utility has a financial interest greater than 50 percent.

Minnesota Power has no financial interest in Boise or in any other aspect of the facilities at the International Falls paper mill.

B. Minn. Stat. § 216B.162, subd. 7 lists four determinations that the Commission must make when analyzing a proposed competitive rate.

1. That the rate meets the terms and conditions in subdivision 4, unless the commission determines that the waiver of one or more terms and conditions would be in the public interest.

The Commission has granted a waiver of the five year contract limit found in Minn. Stat. § 216B.162, subd. 4.

As the Commission has noted in this Order, the proposed competitive rate for Boise otherwise meets the terms and conditions of Minn. Stat. § 216B.162, subd. 4.

2. That the customer can obtain its energy requirements from an energy supplier not rate-regulated by the commission under section 216B.16.

Boise has the capability of installing facilities for generating electricity at the International Falls site. This cogeneration project would not be subject to Commission rate regulation.

3. That the customer is not likely to take service from the electric utility seeking to offer the competitive rate if the customer was charged the electric utility's standard tariffed

rate.

Boise remains willing and able to self-generate through the addition of a turbine-generator, should Minnesota Power fail to offer its competitive rate.

4. That after consideration of environmental and socioeconomic impacts it is in the best interest of all other customers to offer the competitive rate to the customer subject to effective competition.

The Department found that Minnesota Power's proposed competitive rate for Boise has no negative socioeconomic impact.

The Department analyzed the environmental impact of the proposed competitive rate and found that the proposed competitive rate is in the best interest of all other customers. The Department's determination was based upon the following test:

> The competitive rate is in the best interest of all other customers if the following condition is satisfied: the sum of Minnesota Power's internal incremental cost and the net external incremental costs of providing electric service to Boise under the competitive rate is less than Minnesota Power's revenues under the competitive rate.

The Department conducted a nine-step analysis of environmental costs and determined that the proposed competitive rate meets its test and is therefore in the best interest of all other customers. In its analysis, the Department factored in the standby costs Boise would incur if it turned to cogeneration as an alternative to Minnesota Power's competitive rate.

III. CONCLUSION

Minnesota Power's proposed competitive rate offering for the Boise paper mill operation fulfills the statutory criteria of the competitive rate statute, Minn. Stat. § 216B.162. The Commission finds that the proposed rate is in the public interest and will approve it.

ORDER

1. The Commission approves Minnesota Power's proposed competitive rate in its November 1, 1996 petition, and the two contract amendments contained in the petition.

2. Pursuant to Minn. Stat. § 216B.162, subd. 7, the Commission grants Minnesota Power a waiver of the five year statutory time limit in Minn. Stat. § 216B.162, subd. 4, so that the competitive rate may extend for six years.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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