Direct Testimony and Schedules Benjamin S. Levine

Before the Minnesota Public Utilities Commission

State of Minnesota

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota

Docket No. E015/GR-19-442

Exhibit _____

SALES FORECAST

November 1, 2019

TABLE OF CONTENTS

Page

I.	INTRO	DUCT	ION AND QUALIFICATIONS	1
II.	RECE	NT ENE	RGY SALES TRENDS	4
	A.	Resider	ntial and Commercial Customer Classes	7
	B.	Industr	al Customer Class	15
		1.	Mining and Metal Customers	15
		2.	Paper and Pulp Customers	19
		3.	Pipeline and Other Industrial Customers	23
	C.	Resale	Customers	26
III.	2020 7	TEST YE	EAR FORECAST METHODOLOGY	27
	A.	AFR Fo	precast Methodology	29
	B.	Method	lology for Forecasting Sales to Large Customers	35
IV.	TEST	YEAR S	SALES FORECAST	36
V.	ACCU	RACY	OF SALES FORECAST APPROVED IN LAST RATE CASE	38
VI.	CONC	CLUSIO	N	47

1		I. INTRODUCTION AND QUALIFICATIONS
2	Q.	Please state your name and business address.
3	А.	My name is Benjamin S. Levine and my business address is 30 West Superior Street,
4		Duluth, Minnesota 55802.
5		
6	Q.	By whom are you employed and in what position?
7	А.	I am employed by ALLETE, Inc., doing business as Minnesota Power ("Minnesota
8		Power" or the "Company"). My current position is Senior Utility Load Forecaster.
9		
10	Q.	Please summarize your qualifications and experience.
11	А.	I have 11 years of experience in demand and energy forecasting, load research, and
12		analytics. I have been employed at Minnesota Power for all 11 years of my career as a
13		load forecaster. I am currently responsible for long-term electric sales forecasting, load
14		research and analytics, economic impact analysis, and tool development for resource
15		planning functions. I graduated from the University of Wisconsin, Superior with a
16		Bachelor of Science in Economics.
17		
18	Q.	What is the purpose of your testimony?
19	А.	I provide information regarding Minnesota Power's forecast of retail sales for the 2020
20		test year, which is based on the Company's 2018 Annual Forecast Report ("2018
21		AFR"). As I will explain, Minnesota Power's 2020 test year sales forecast is based on
22		sound methodologies, provides a reasonable estimate of Minnesota Power's forecasted
23		test year megawatt-hour ("MWh") sales and customer counts, and should be adopted
24		for purposes of determining the revenue requirements and final rates in this proceeding.
25		
26	Q.	Please discuss any compliance requirements related to the sales forecast from the
27		Company's prior rate cases.
28	А.	Order Point 19 of the Minnesota Public Utilities Commission's ("Commission")
29		November 2, 2010, Findings of Fact, Conclusions, and Order in the Company's 2009
30		rate case (Docket No. E015/GR-09-1151) required the Company to provide in all future
31		rate cases, "all data used in its test year sales forecast at least 30 days before filing the
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rate case." This information was e-filed by the Company on September 27, 2019 through the Commission's electronic filing system.

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Q. Has Minnesota Power also filed its 2019 Annual Electric Utility Forecast Report?

5 Yes, as required by Minnesota Rules Chapter 7610, Minnesota Power submitted its Α. 6 2019 Annual Electric Utility Forecast Report ("2019 AFR") on July 17, 2019, in Docket 7 No. E999/PR-19-11. The 2019 AFR is the Company's most current short-term and 8 long-term (2019-2033) outlook, including customer count, energy sales, and peak 9 demand forecasts, and will be a common point of comparison for the test year sales 10 forecast. Minnesota Power's 2018 Annual Electric Utility Forecast Report ("2018 11 AFR") and Minnesota Power's 2019 AFR are included in Volume 4, Workpapers as 12 Schedules OS-3 and OS-4, respectively.

14 **Q.** Are you sponsoring any exhibits in this proceeding?

15 A. Yes. I am sponsoring the following exhibits:

- MP Exhibit ____ (Levine), Direct Schedule 1 Minnesota Power Retail
 Operations MWh Sales and Customer Counts for the 2020 test year.
- MP Exhibit ____ (Levine), Direct Schedule 2 Minnesota Power Retail
 Operations MWh Sales and Customer Counts from the 2019 AFR forecast for
 2020 vs. 2020 test year.
- MP Exhibit____ (Levine), Direct Schedule 3 Minnesota Power Retail
 Operations MWh Sales for Commission-approved 2017 test year vs. actual 2017
 sales.
- MP Exhibit ____ (Levine), Direct Schedule 4 Minnesota Power Retail
 Operations MWh Sales for Minnesota Power's Supplemental 2017 test year vs.
 actual 2017 sales.
- MP Exhibit ____ (Levine), Direct Schedule 5 Minnesota Power Retail
 Operations MWh Sales for the Commission-approved 2017 test year vs. 2020
 test year.
- MP Exhibit (Levine), Direct Schedule 6 Minnesota Power 2019 AFR
 Forecast by Revenue Class for 2019-2033.

1		• MP Exhibit (Levine), Direct Schedule 7 – Minnesota Power Retail
2		Operations MWh Sales Commission-approved 2017 test year vs. actual 2018
3		sales.
4		• MP Exhibit (Levine), Direct Schedule 8 – Minnesota Power Retail
5		Operations MWh Sales actual 2017 sales, 2017 test year, actual 2018 sales, and
6		2020 test year.
7		
8		I am also sponsoring the sales forecast information pre-filed in this docket on
9		September 27, 2019.
10		
11	Q.	Please summarize your testimony.
12	A.	My testimony presents the test year sales and customer count forecast for the 2020 test
13		year shown in Table 1. I provide context for the 2020 test year forecast by discussing
14		recent trends in customer count growth and energy use by customer class, and I describe
15		the methodology used to develop the forecast to show the reasonableness of Minnesota
16		Power's 2020 test year outlook.
17		

	2020 Te	st Year
MWh Sales	Energy Sales (MWh)	Customer Count
Residential	1,049,317	122,751
Commercial	1,261,298	23,155
Industrial		
Mining and Metals	5,205,159	
Paper and Pulp	1,004,987	
Pipelines	333,975	
Other Industrial	318,979	
Total Industrial	6,863,100	374
Government & Light	62,552	989
Total Retail	9,236,267	147,268
Municipals	571,700	
SWLP	791,014	
Total Retail and Resale	10,598,981	

Table 1.

1 The Company's 2020 test year retail sales forecast of 9,236,267 MWh is 2.3 percent 2 higher than 2018 actual retail sales (9,027,899 MWh) and 2.7 percent higher than 2017 3 actual retail sales (8,997,352 MWh). The Company's 2020 test year retail sales forecast 4 is also provided in MP Exhibit ____ (Levine), Direct Schedule 1. As I detail later in my 5 testimony, the vast majority of this projected increase is attributable to known changes in customer sales, but the 2020 test year forecast for retail sales is otherwise very 6 7 comparable to recent years' actual sales. 8 9 The Company's test year sales forecast provides a reasonable estimate of 2020 test year 10 sales and customer counts and should be adopted for the purpose of determining the 11 revenue requirement and final rates in this proceeding. 12 II. 13 **RECENT ENERGY SALES TRENDS** 14 Please describe Minnesota Power's customer mix. **Q**. 15 A. Minnesota Power serves just over 145,000 retail electric customers, 15 municipal 16 systems, and some of the nation's largest industrial customers across a 26,000-square-17 mile service area in central and northeastern Minnesota. The Company also serves Superior Water Light and Power ("SWLP") in Superior, Wisconsin. As shown in Figure 18 19 1 below, Minnesota Power's retail customer mix is unique in that energy sales to 20 industrial customers—primarily in the taconite mining, paper, pulp, and pipeline 21 industries—make up about 74 percent of the Company's total retail energy sales. Many 22 of these customers operate 24/7, which gives Minnesota Power a unique high-load 23 factor with less variation in customer demand than most utilities. Due to the northern 24 climate, Minnesota Power's peak consumption typically occurs in the winter during the 25 evening hours driven by residential heating and lighting loads.







4 Q. Please describe the customer classes used in Minnesota Power's customer and sales 5 forecast.

A. The Company projects energy use and customer counts for each of its five retail
customer classes: Residential, Commercial, Industrial, Public Authorities, and Lighting.
Given its size, the Industrial class is further segmented into four sectors for forecasting
purposes: Mining and Metals, Paper and Pulp, Pipelines, and Other Industrial sectors.

10

Q. Please summarize recent trends in energy sales for the Minnesota Power service territory.

13 Minnesota Power's non-industrial customer sales account for about 27 percent of total A. 14 retail sales, and have declined about 0.2 percent per year since 2008. Overall 15 Residential and Commercial customer count growth has slowed recently due to 16 economic and demographic factors, and the average customer is using less energy each 17 year due to energy efficiency and conservation. Minnesota Power has successfully 18 delivered energy savings at or above the 1.5 percent energy-savings goal since 2010 and 19 savings in recent years have been as high as 2.6 percent, as discussed in the Case 20 Overview Direct Testimony of Company witness Mr. Frank L. Frederickson.

Minnesota Power's customer mix is heavily weighted towards resource-based industries, and trends in sales are largely driven by demand for iron, steel, and paper. Both the iron and paper sectors are subject to global economic conditions. Demand for iron and steel is highly cyclical, and the impacts of the general economic downturn (2009) and industry-specific downturn (2015-2016) resulted in dramatic reductions in Minnesota Power's overall retail sales as shown in Figure 2.

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In the last two years, the Company has seen fairly robust sales to the mining sector and the 2020 test year reflects that the Company expects these customers to remain at nearfull production. Demand for paper is less cyclical, but it is gradually diminishing. The impact of a secularly declining North American paper market on Minnesota Power sales is evident in Figure 2. Since 2014, energy sales to the paper sector have declined over 500,000 MWh as customers have shut-down paper machines or invested in their own generating capabilities to reduce energy costs.



Figure 2.

Figure 2 also shows the test year retail sales outlook of 9,236,267 MWh is around 200,000 MWh higher than sales in recent years (2017 and 2018). The last time Minnesota Power's retail sales exceeded 9,200,000 MWh was in 2014, which was prior to the closures of several large paper machines, several iron concentrate facilities, and a Direct Reduced Iron ("DRI") nugget facility.

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A. <u>Residential and Commercial Customer Classes</u>

8 Q. Has Minnesota Power observed any notable recent trends in its Residential and 9 Commercial customer classes?

- A. Yes. Sales to both the Residential and Commercial classes have remained virtually
 static since 2009, the end of the Great Recession (2007-2009). Prior to 2009,
 Residential and Commercial sales were growing at 1.6 percent per year and 2.6 percent
 per year respectively. Since 2009, the pace of annual growth in Residential and
 Commercial sales has slowed to -0.2 percent and 0.2 percent respectively. In both the
 Residential and Commercial classes, the pace of customer count growth has slowed and,
 on-average, each individual customer is using less energy.
- 17

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Q. What is driving the recent lower sales to the Residential class?

19 A. There are two factors driving lower sales to the Residential class in recent years: 20 stagnant customer count growth and reduced average energy usage per customer. The 21 reduced pace of customer count growth is due to demographic and economic factors. 22 The decreasing average energy use per Residential customer is at least partly driven by 23 the cumulative effects of conservation efforts. As a result, sales to the Residential class 24 have declined slightly over the last decade, and have been especially low in the last four 25 years, averaging just 1,026,419 MWh (2015-2018) compared to a 1,078,049 MWh 26 average for the prior four years (2011-2014).

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28 Q. Describe recent trends in Residential customer counts.

A. The rate of annual Residential customer count growth slowed from an average 1.1
percent pace prior to the Great Recession (2007-2009) to just 0.1 percent per year since
2009. Figure 3 below compares the pre-recession and post-recession trends in

Residential customer count growth. In terms of actual customer counts, Minnesota Power was gaining 1,000 Residential customers per year prior to the Great Recession, and new customer growth has slowed to about 140 customers per year in the years since. The reduced pace of new Residential customer growth is consistent with regional population metrics. For example, U.S. Census data shows the City of Duluth's population, the largest city in Minnesota Power's service area, has decreased 0.2 percent since 2010.

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Q. How has energy use per Residential customer changed in recent years?

A. Energy usage by the average Residential customer has plateaued or decreased in recent
years. Figure 4 below shows annual energy use by the average Residential customer
averaged about 8,900 kWh in the 2007-2014 timeframe, declining to just 8,400 kWh in
the last few years (2015-2018). The Company attributes the decline in per-customer
energy use to both Minnesota Power's conservation programs and customer-driven
conservation.

Figure 4.



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Q. Is the Company's 2020 test year sales forecast consistent with these recent trends for Residential customers?

A. Yes. Figure 3 and Figure 4 show the test year forecasts of both customer count and
average use per-customer are in line with recent trends. The 2020 test year forecast of
customer count reflects a continuation of the 0.1 percent per year growth trend since
2009, and the forecast of use per customer is a bit higher than a recent historical average.

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The 2020 test year forecast of overall sales to the Residential class is produced by combining the outlooks for customer count and per-customer usage. Figure 5 shows the Company's 2020 test year sales forecast for total Residential sales of 1,049,317 MWh is largely in line with the recent levels of actual sales and reflects a continuation of these trends. The 2020 test year outlook is about 3,500 MWh (0.3 percent) lower than 2018 actual sales, and about 23,000 MWh higher than an average of the last three years' sales to the Residential class.

Figure 5.



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Q. Is the Company's 2020 test year sales forecast consistent with state and national trends for Residential customers?

6 Yes. Minnesota Power's sales to Residential customers have generally followed state A. 7 and national trends historically, and the 2020 test year sales forecast reflects a 8 continuation of these trends. Figure 6 shows Residential energy use at the state and 9 national level compared to Minnesota Power's Residential sales with all sales histories 10 indexed to 2000. All three Residential energy usage series in Figure 6 show a change in slope beginning in the 2007-2008 timeframe. Minnesota and national electricity 11 12 usage grew by 22 percent and 16 percent (respectively) from 2000 to 2007, but 13 electricity consumption in both geographies has actually decreased (by 5 percent and 1 14 percent, respectively) in the last decade. Minnesota Power's Residential sales increased 15 by 17 percent from 2000 to 2007 and Residential sales have contracted 4 percent over 16 the last decade.





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4 Q. Please describe recent trends in the Commercial customer class.

5 A. Similar to the trends seen with the Residential class, Commercial customer count growth 6 and use per-customer have also slowed in recent years. Figure 7 shows Commercial 7 customer count grew by about 2 percent per year (350 new accounts per year) in the 8 pre-2009 recession timeframe. Since 2009, this rate has slowed to about 0.8 percent 9 (170 new accounts per year). The slower rate of customer growth is likely following 10 the same demographic and economic trends that have impacted Residential customer 11 growth since the Great Recession (2007-2009).

Figure 7.



Figure 8 shows the average Commercial customers' annual energy consumption declined approximately 3.7 percent from 2008 to 2009, plateaued for about six years following the Great Recession, and then began a three-year (2015-2017) slide of about 2.4 percent per year. As of 2018, per-customer usage was about 8.7 percent lower than pre-recession (2008) levels.





Docket No. E015/GR-19-442 Levine Direct and Schedules

		Commercial Energy Sales
19		Figure 9.
18		
17		of actual sales.
16		about 28,000 MWh (2 percent) higher than a three-year (2015-2018) historical average
15		(1,261,298 MWh) compared to recent historical actuals. The 2020 test year outlook is
14	A.	Figure 9 shows the Company's 2020 test year forecast for Commercial energy sales
13		compare to actual sales in recent years?
12	Q.	How does the Company's 2020 test year forecast for Commercial customers
11		
10		however, it is not certain that these new businesses would restart in the test year.
9		some of the Commercial energy consumption lost in recent years may be temporary;
8		lost larger Commercial accounts may host new businesses in the future, and therefore
7		There are indications that several of the locations previously occupied by these recently-
6		
5		overall per-customer usage average.
4		Commercial customers in the Minnesota Power service territory that were boosting the
3		worth noting that the recent sharp decline is also due to the loss of several larger
2		The decrease in per-customer usage is likely due in part to conservation, but it is also
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Docket No. E015/GR-19-442 Levine Direct and Schedules

2 The Company's test year forecast of 2020 Commercial energy sales is noticeably higher 3 than actual sales in recent years. This is because several larger Commercial accounts 4 have been lost recently, which has depressed recent years' sales to this class, but the 5 forecast does not fully account for this loss of sales. The Company chose not to account 6 for this loss of Commercial sales in its econometric forecasting via a binary variable 7 (for example), and did not apply an arithmetic adjustment to the resulting econometric 8 forecast. Both are viable methods to account for a change in customer class composition 9 and might result in a more accurate and lower Commercial sales forecast, but both 10 methods are also fairly subjective. Also, as I mentioned earlier, there are indications 11 that several of the locations previously occupied by these recently-lost larger 12 Commercial accounts may host new businesses in the future. Given this uncertainty, 13 the Company considered it appropriate to err on the side of simple, objective 14 econometric modeling which results in a fairly optimistic, higher Commercial test year 15 forecast.

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Is the Company's 2020 test year sales forecast consistent with state and national trends for Commercial customers?

A. Yes. Minnesota Power's sales to Commercial customers have generally followed state
trends and the national trends are comparable in some respects. Figure 10 shows
Commercial energy use at the state and national level compared to Minnesota Power
Commercial sales with all sales histories indexed to 2000. All three historical series
demonstrate the same flattening of sales starting around 2007 and 2008. The 2020 test
year sales forecast reflects a continuation of these trends.





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B. Industrial Customer Class

Q. Please describe how your testimony and that of Company witness Mr.
Frederickson work together to provide test year sales forecast information for
Minnesota Power's mining, pulp and paper, and other large power customers.

A. The Large Power Customer Outlook Direct Testimony of Mr. Frederickson ("Large
Power Direct Testimony") describes how the Company gathers customer, industry, and
economic information from a variety of sources and how this information informs
Minnesota Power's sales forecast for our large power customers. I utilize this
information along with data from the AFR and broad industry trends to determine the
sales forecast for these large power customers.

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1. <u>Mining and Metal Customers</u>

16 Q. Please describe recent trends with respect to Minnesota Power's Mining and 17 Metals customers.

A. Sales to Minnesota Power's Mining and Metals customers have partially recovered and
 stabilized since the 2015-2016 domestic industry downturn. All six taconite mining
 facilities have since resumed operations and had been running at near-full production

- levels until recently when Minntac announced it would idle its number three line ("line
 three") for the remainder of fourth quarter of 2019.
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The 2015-2016 downturn resulted in the closure of several iron concentrate facilities and a DRI nugget facility. At full load, these facilities would constitute approximately 7.7 percent of energy sales to the Mining and Metals sector, so this loss of sales was not insignificant.

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9 Q. Are there any notable industry trends that may impact near-term sales to 10 Minnesota Power's mining customers?

A. Yes. There are some recent signs of weakness in the broader iron and steel industry that
 could negatively affect near-term taconite production and energy sales to Minnesota
 Power's mining customers.

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15 The Institute of Supply Management's ("ISM") manufacturing index has declined 16 precipitously since late 2018, and the recent levels indicate the U.S. manufacturing 17 sector is still struggling. The Federal Reserve's overall Industrial Production Index 18 ("IPI"), which measures manufacturing, mining, and utilities (electric and gas), 19 contracted in both the first and second quarters of 2019. The last time IPI growth was 20 negative over consecutive quarters was in 2015 and 2016, when Minnesota taconite 21 mines idled capacity. Reduced industrial production has already induced a change in 22 steel product price. The most recent Producer Price Index ("PPI") for Metals and Metal 23 Products: Iron and Steel¹ (August, 2019) shows an 11 percent year-over-year decrease 24 in iron and steel product price. Further, the price index value of 218.7 is about the same 25 as in early 2015, when the U.S. domestic iron and steel industry experienced a downturn 26 resulting in the idling of four Minnesota taconite mines.

¹ U.S. Bureau of Labor Statistics, Producer Price Index by Commodity for Metals and Metal Products: Iron and Steel [WPU101], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WPU101, September 12, 2019.

1 The actions of Minnesota Power's customers also indicate the potential for near-term 2 weakness in taconite production. United States Steel Corporation ("U.S. Steel") 3 announced in mid-October 2019 that it would idle line three at Minntac for the 4 remainder of 2019, and announced in June 2019 that it would idle blast furnaces in 5 Michigan and Indiana in response to lower steel prices and softening demand from the 6 manufacturing sector.

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Q. How does the Company's 2020 test year forecast for Mining and Metals customers compare to actual sales in recent years?

A. Figure 11 shows the Company's 2020 test year forecast for Mining and Metals energy sales (5,205,159 MWh) compared to recent historical actuals. Annual sales averages for pre-2015 downturn period (2011-2014) and the downturn period (2015-2016) are shown for comparison. The 2020 test year forecast is about 312,000 MWh (6 percent) higher than the pre-downturn average and about 1,252,000 MWh (32 percent) higher than average annual sales during the 2015-2016 downturn.

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Figure 11.

Q. Please describe the 2020 test year outlook's assumptions for Mining and Metals customers.

- A. The Company's 2020 test year forecast for the Mining and Metals industrial sector of
 5,205,159 MWh assumes all current taconite mining customers have essentially full
 energy requirements, maintain a full 12-month production schedule with no idled
 production, and operate at near-full production intensity throughout 2020.
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- 8 "Near-full" production in this case refers to a 38 MT level of production, which is about
 9 92.3 percent of the Mesabi Range's 41 MT per-year maximum production capacity.
 10 This volume of production is about 6.5 percent higher than a 2001-2018 historical
 11 average and about 3.4 percent above a historical average that excludes 2009, which was
 12 an exceptionally low production year.
- 14 The test year forecast assumes the U.S. Steel Minntac facility runs near its maximum 15 capacity and no production is idle in 2020, including line three. In other words, the test 16 year forecast has not been reduced on the assumption that line three is idle at any point 17 in 2020.
- 18

- 19 The test year also includes about 200,000 MWh per year in additional energy sales to 20 Cliffs' Silver Bay Power Company ("SBPC") as compared with recent historical sales. 21 The additional sales to SBPC will coincide with the idling of 130 MW of coal fired 22 generation, facilitated by the Company through a contractual agreement for non-firm 23 retail energy with SBPC, as discussed in the Large Power Direct Testimony of Company 24 witness Mr. Frederickson. This impacts energy sales to SBPC, but does not affect the 25 overall energy requirements of the six mining facilities.
- 26
- The 2020 test year does not include any substantial sales to PolyMet. At earliest, this facility could begin operations in 2022, and presently, the Company is only budgeting minimal auxiliary power needs in 2020. The 2020 test year forecast also does not include any substantial sales to the Magnetation, Mining Resources, or Mesabi Nugget

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Q. Are there any notable differences between the 2020 test year outlook for Mining and Metals customers and recent actual sales?

there is no indication they will resume production during the 2020 test year.

facilities as these facilities were idled during the 2015-2016 steel industry downturn and

Yes. The test year forecast includes additional sales to SBPC, which explains the 6 A. 7 increase relative to actual 2018 sales. The test year also incorporates a full 12-month 8 operation schedule by all mining facilities, including the Keetac facility, so this would 9 contribute to an increase in 2020 test year sales relative to actual 2015-2017 sales. The 10 increase in 2020 sales relative to 2015 and 2016 resulting from increased taconite 11 production is moderated by the loss of sales to the Magnetation, Mining Resources, and 12 Mesabi Nugget facilities, which took energy from Minnesota Power in 2015 and 2016 13 prior to their closure.

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2. <u>Paper and Pulp Customers</u>

16 Q. Please describe the Company's customers in the Paper and Pulp sector.

17 Minnesota Power serves four pulp and paper mills, each producing a different paper A. 18 product (or paper "grade"): Blandin Paper Company in Grand Rapids produces Coated 19 Ground Wood ("CGW"); (2) Verso in Duluth produces an Uncoated Ground Wood 20 grade sometimes referred to as Super Calendar ("SC"); (3) Boise in International Falls 21 produces an Uncoated Free Sheet ("UFS"); (4) Sappi in Cloquet produces Coated Free 22 Sheet ("CFS"). Each of these mills face a secularly declining North American paper 23 market. Figure 12 below shows U.S. demand for each of these paper grades with all 24 years indexed to 2006 to better convey percentage changes. Overall, U.S. paper product 25 demand in 2018 has fallen to about half of its 2006 levels, a decline of about 5 percent 26 per year. The forecasts for each of these grades are expected to continue to decline at 27 roughly this same rate through 2021.

Figure 12.



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Minnesota Power annual sales to Paper and Pulp customers have declined by about 500,000 MWh (34 percent) in the last four years, and actual 2018 sales to Paper and Pulp customers were 225,500 MWh (18.6 percent) lower than the approved 2017 test year level. Reductions in sales have occurred for two reasons: (1) customers reducing energy costs by increasing their own generating capabilities and displacing energy purchased from Minnesota Power, and (2) permanent paper machine closures. These reductions in sales have occurred with some regularity.

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Q. Please provide additional details regarding the reduction in sales to Minnesota
 Power's Paper customers.

In late 2013, Boise idled its # 2 paper machine resulting in an approximate **[TRADE**] 14 A. 15 **SECRET DATA BEGINS** TRADE SECRET DATA ENDS] MWh reduction in annual sales. In 2015, Boise installed a new turbine generator that displaced 16 17 Minnesota Power deliveries and reduced annual sales by about [TRADE SECRET 18 **DATA BEGINS** TRADE SECRET DATA ENDS] MWh. In mid-2016, the 19 Sappi Turbine Generator 5 transitioned back to Sappi ownership and resulted in an 20 approximate [TRADE SECRET DATA BEGINS **TRADE SECRET DATA** 21 **ENDS** MWh reduction in annual sales. In late 2017, Blandin Paper Company

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Docket No. E015/GR-19-442 Levine Direct and Schedules

("Blandin") idled its Paper Machine # 5, resulting in an annual sales reduction of about
 [TRADE SECRET DATA BEGINS TRADE SECRET DATA ENDS]
 MWh.

5 In 2013, Sappi converted some of its processes to a chemical cellulous product that is 6 used in textiles. Conversion to a new process is not always commercially feasible, but 7 is an adaptive strategy that minimizes job losses. One recent example of potential 8 conversion is the Verso paper mill in Duluth. The Minnesota State legislature approved 9 a \$2 million loan for Verso's Duluth mill to help diversify its product mix and improve 10 its commercial viability. A new product mix at the Verso plant likely means a new 11 production process and lower overall energy requirements.

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13 Q. Have there been any other changes in the Paper and Pulp sector?

 A. Yes. The Paper and Pulp sector has historically included a few small wood product manufacturers. Several of these manufacturers have closed in the last decade, including:
 Georgia Pacific's Duluth hardboard plant in 2013, and International Bildrite's fiberboard facility in 2018. While in operation, these customers accounted for about
 [TRADE SECRET DATA BEGINS TRADE SECRET DATA ENDS] MWh in annual sales, and comprised about 3 percent of the Paper and Pulp sector as a whole.

20

21 Q. What are the Company's expectations for the Paper and Pulp sector in 2019?

A. According to RISI, U.S. printing and writing paper demand is expected to drop 7.4
percent in 2019, a large increase from the 1.7 percent decline in 2018. This decrease is
driven by coated paper demand declining at a rate not seen since the Great Recession
and demand for uncoated mechanical posting one its worst declines ever in 2019.
Minnesota Power energy sales to Paper and Pulp customers to-date in 2019 are
comparable to 2018 levels, but the overall energy use (inclusive of customer-owned
generation) has declined about 3.4 percent.

Q. How does the Company's 2020 test year forecast for Paper and Pulp customers
 compare to actual sales in recent years?

A. Figure 13 shows the Company's 2020 test year forecast for the Paper and Pulp industrial
sector (1,004,987 MWh) is fairly comparable to actual 2018 sales, just 18,000 MWh
(1.8 percent) higher than actual 2018 sales. The 2020 test year forecast is about 100,000
MWh lower than actual 2017 sales, primarily due to the closure of Blandin Paper
Machine # 5 in late 2017.

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Figure 13.



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Q. Please describe the assumptions for Paper and Pulp customers in the Company's test year forecast.

A. The Company's 2020 test year forecast for the Paper and Pulp industrial sector of
1,004,987 MWh assumes production and energy requirements at all Paper mills remain
in line with 2018 levels. The recently idled Blandin Paper Machine # 5 is assumed to
remain offline indefinitely, including during the 2020 test year, and the Company has
no firm indications of any impending load additions or losses. As such, the 2020 test
year sales forecast for Paper and Pulp is relatively close to actual 2018 sales.

While it is possible that a new production process at the Verso paper mill will result in reduced sales in the near future, this potential reduction is not certain enough to include in the 2020 test year forecast. This highlights the downside risk in this customer class and suggests the Company's test year forecast of sales to this sector is relatively optimistic.

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3. <u>Pipeline and Other Industrial Customers</u>

8 **Q.** What types of customers are included in the Pipeline and Other Industrial classes? 9 A. The Pipeline and Other Industrial sectors includes all non-mining and non-Paper 10 industrial customers. Pipelines account for about 53 percent of the energy consumed in 11 this industrial sector with foundries/casting/recycling and food product manufacturing 12 currently comprising about 16 percent and 13 percent of the class, respectively.

13

14 Q. Please describe recent trends in the Company's Pipelines and Other Industrial 15 sector.

- 16 A. The Pipelines and Other industrial sector has expanded by about 3.6 percent since 2009, 17 but almost all (98.4 percent) of this growth is due to a single customer. Underlying 18 growth in the Other Industrial sector has averaged just 0.1 percent per year since 2009. 19 This is due to a few noteworthy customer facility closures in recent years that have 20 resulted in significant sales losses. These customer closures include: the Banta 21 Publishing plant in Long Prairie, the Central MN Renewables/Green Biologics plant in 22 Little Falls, and Diamond Brand's match and toothpick factory in Cloquet. However, the new Nordic Metals Recycling² facility in Ironton and a recent expansion at Long 23 24 Prairie Packing Company in Long Prairie will likely offset most of this recent sales loss.
- 25

Q. How does the Company's 2020 test year forecast for Pipelines and Other Industrial customers compare to actual sales in recent years?

A. Figure 14 shows the Company's 2020 test year forecast of Pipelines and Other Industrial
energy sales compared to recent trends. The 2020 test year forecast of 652,954 MWh

² ANNUAL COMPLIANCE FILING, In the Matter of a Request by Minnesota Power for Revisions and New Rider for Large Power Class Annual Compliance Filing, Docket No. E015/M-19-295 (April 30, 2019).

is about equal to actual 2018 sales and about 8,500 MWh higher than the 2015-2018
 historical average.

- 3
- 4

Figure 14.



5 6

Q. Please describe the test year outlook's assumptions for Minnesota Power's Pipelines and Other Industrial customers.

A. The Company's 2020 test year forecast for the combined Pipeline and Other Industrial
sector of 652,954 MWh includes new sales to Nordic Metals Recycling and Long Prairie
Packing and excludes any sales to the recently lost accounts of Banta Publishing and
Diamond Brands. The expected additions are roughly equivalent to the recent losses,
and as a result the 2020 test year outlook is just 1,400 MWh (0.2 percent) higher than
actual 2018 sales, and just 800 MWh (0.1 percent) lower than a three-year (2016-2018)
historical average of actual sales to this sector.



1 for about **[TRADE SECRET DATA BEGINS**] TRADE SECRET DATA ENDS] 2 percent of sales in the Pipeline and Other Industrial sector. 3 4 Please summarize the overall test year sales forecast for the Industrial customer Q. 5 class. 6 The Company's 2020 test year Industrial forecast (6.863,100 MWh) is the summation A. 7 of the Mining, Paper, Pipelines, and Other Industrial forecasts described above. The 8 2020 test year's Industrial sector forecast is about 2.8 percent higher than actual 2018 9 Industrial sales (6,677,891 MWh) and about 2.5 percent higher than 2017 sales to the 10 Industrial class. The majority of the increase in Industrial sales relative to recent years' 11 actual sales is due to new non-firm sales to Silver Bay Power in 2020, and some of this 12 increase is offset by decreased sales to the Paper and Pulp sector due to the closure of 13 Blandin's Paper Machine # 5 at the end of 2017. 14 15 Figure 15 compares the 2020 test year forecast of total Industrial sales to an average of 16 2017 and 2018 sales, and shows 2020 being the highest sales year since 2014, which 17 was prior to the closures of several large paper machines, several iron concentrate

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- 20



facilities, and a DRI nugget facility.



25

Docket No. E015/GR-19-442 Levine Direct and Schedules

1		
2		C. <u>Resale Customers</u>
3	Q.	Please describe the 2020 test year forecast for resale customers.
4	A.	The Company's 2020 test year forecast for the resale customer class, which combines
5		sales to SWLP and Minnesota Power municipal customers, is 1,362,714 MWh. This is
6		276,307 MWh (16.9 percent) lower than a three-year (2016-2018) historical average of
7		actual sales to this class.
8		
9		This considerable decrease in test year sales relative to recent actual sales is due to
10		known changes in four large accounts: (1) SWLP, (2) Public Utilities of Brainerd, (3)
11		Hibbing Public Utilities, and (4) Virginia Public Utilities.
12		
13		The Husky Oil Refinery accounted for about [TRADE SECRET DATA BEGINS
14		TRADE SECRET DATA ENDS] percent of SWLP energy consumption, and the
15		explosion at that facility in April 2018 has resulted in an approximate [TRADE
16		SECRET DATA BEGINS TRADE SECRET DATA ENDS] MWh per year
17		reduction in sales. This reduction in SWLP sales is offset by a recently observed
18		increase in pumping load by Enbridge and a recent expansion at the Charter NEX blown
19		plastic extrusion facility that adds about [TRADE SECRET DATA BEGINS
20		TRADE SECRET DATA ENDS] MWh to the facility's annual energy requirements.
21		
22		Brainerd Public Utilities' annual energy requirement of about TRADE SECRET
23		DATA BEGINS TRADE SECRET DATA ENDS] MWh per year was served
24		by Minnesota Power until the expiration of their contract on July 1, 2019. Brainerd
25		Public Utilities accepted a wholesale power supply offer from American Electric Power
26		instead of renewing its contract with Minnesota Power. The 2020 test year forecast
27		assumes no sales to Brainerd Public Utilities.
28		
29		The termination of Xcel Energy's agreement with Laurentian Energy Authority
30		("LEA"), which was approved by the Commission by Order dated January 23, 2018 in
31		Docket No. E002/M-17-530, left Hibbing and Virginia Public Utilities with available

1		generation assets that could be used to meet their customers' energy requirements. As
2		a result, Minnesota Power sales to Hibbing and Virginia are reduced in the 2020 test
3		year forecast relative to recent years' actual sales. Further, energy sales in recent years
4		indicate that both municipalities have been successful in implementing conservation
5		programs. Combined, Hibbing and Virginia have reduced their purchases from
6		Minnesota Power by about 3.5 percent per year on average since 2014. Sales in 2018
7		were 13 percent lower (about 40,000 MWh) than in 2014. The 2020 test year forecast
8		reflects these recent sales trends and the expected loss of sales due to displacement by
9		new customer generation.
10		
11		III. 2020 TEST YEAR FORECAST METHODOLOGY
12	Q.	What is the purpose of this section of your testimony?
13	A.	In this section of my testimony, I provide additional information regarding the
14		methodology utilized by Minnesota Power to develop the 2020 test year sales forecast
15		that I discussed in previous sections.
16		
17	Q.	What process did Minnesota Power use to forecast the number of customers for
18		the 2020 test year?
19	A.	Minnesota Power utilized the results of its 2018 AFR. The 2018 AFR uses an
20		econometric modeling process to forecast customer count and energy sales based on
21		these series' historical correlation to economic metrics. This process is described in
22		greater detail below and is also fully documented in Minnesota Power's 2018 AFR and
23		2019 AFR.
24		
25	Q.	What process did Minnesota Power use to forecast the energy sales for the 2020
26		test year?
27	A.	The 2020 test year forecast is produced by combining the 2018 AFR's econometric
28		approach to modeling Residential, Commercial, and small Industrial sales with a
29		"bottom-up," customer-by-customer approach to forecasting the Company's large
30		power customers.
31		

- Q. Why was the 2018 AFR forecast used as the basis of the 2020 test year sales forecast
 and customer counts rather than the 2019 AFR?
- A. The timing of the rate case filing required sales forecast data to be finalized in April
 2019. The 2019 AFR forecast was not completed until July, and therefore could not be
 used as a basis for the 2020 test year. Instead, the 2020 test year forecast was developed
 based on the 2018 AFR, which was the most current AFR at the time the 2020 test year
 sales forecast was being developed.
- 9 While the 2018 AFR was used as a basis for the test year sales and customer counts, the 10 2018 AFR models were updated to include the effects of energy efficiency so they 11 would be consistent with 2019 AFR models and methodology. The 2019 AFR's energy 12 efficiency forecasting methodology was established and the necessary data had been 13 gathered by the time the 2020 test year sales forecast was being developed, so the 14 Company updated the existing 2018 AFR models per the 2019 AFR's energy efficiency 15 methodology.
- 16

17 Q. How does the 2019 AFR forecast for 2020 compare to the 2020 test year forecast?

A. The 2020 test year forecast of retail energy sales is slightly higher 18,819 MWh (0.2 percent) than the 2019 AFR's projection of total 2020 retail energy consumption. Table
20 2 compares the two outlooks. This comparison is also provided in MP Exhibit _____
21 (Levine), Direct Schedule 2.

Table 2

	2020 Forecast			
MWh Sales	(2019 AFR)	2020 Test Year	Difference (MWh)	% Difference
Residential	1,053,474	1,049,317	(4,157)	-0.4%
Commercial	1,255,436	1,261,298	5,862	0.5%
Industrial				
Mining and Metals	5,205,309	5,205,159	(150)	0.0%
Paper and Pulp	998,085	1,004,987	6,902	0.7%
Pipelines	333,975	333,975	-	0.0%
Other Industrial	308,795	318,979	10,184	3.3%
Total Industrial	6,846,163	6,863,100	16,937	0.2%
Government & Light	62,374	62,552	178	0.3%
Total Retail	9,217,447	9,236,267	18,820	0.2%
Municipals	571,667	571,700	33	0.0%
SWLP	788,917	791,014	2,097	0.3%
Total Retail and Resale	10,578,032	10,598,981	20,949	0.2%

1

3

4

5

Q. How does the 2020 test year retail sales forecast compare with 2019 projected retail sales from the 2019 AFR?

- A. The Company's 2020 test year retail energy sales forecast of 9,236,267 MWh is
 approximately 2.5 percent higher than the 2019 AFR's projection for 2019 retail sales.
 The majority of this year-over-year increase in sales is attributable to new sales to SBPC
 as they idle their generation.
- 10

11

A.

AFR Forecast Methodology

12 Q. Please describe Minnesota Power's AFR forecast methodology.

13 Minnesota Power forecasts energy usage and customer count by revenue class (as Α. 14 opposed to rate class) utilizing a robust econometric methodology and an extensive 15 variable database of economic indicators. Forecast models are structural, defined by 16 the mathematical relationships between the forecast quantities and explanatory factors 17 (i.e., historical usage and economic indicators). The forecast models assume a normal 18 distribution and "50/50" probability; given the methodology, there is a 50 percent 19 probability that the actual demand will be less than forecast and a 50 percent probability 20 that the actual demand will be more than forecast. Minnesota Power's forecasting

methods are in line with electric industry best practices for ratemaking and long-term
 utility planning.

3

4

Q. What are the steps in developing the AFR?

A. The AFR process flow chart is shown in Figure 16 below. Minnesota Power's forecast
process involves six interrelated steps: (1) data gathering, (2) data preparation and
development, (3) specification search, (4) forecast determination, (5) initial review and
verification, and (6) internal company review and approval. The steps of the forecast
process are sequential, however, because of the research dimension, the process
involves feedback loops between steps 2 and 3. Each step of the process is discussed in
detail in Section 1 of Minnesota Power's 2018 AFR and 2019 AFR.

- 12
- 13

Figure 16.



- 14
- 15

16 Q. What data was used to develop Minnesota Power's econometric forecasts?

A. Minnesota Power uses a number of third-party data vendors and public sources in its
forecast database. Minnesota Power's 2018 AFR and 2019 AFR describe each data
source and document any adjustments to the raw data for forecasting purposes. For

1		example, some data may need to be interpolated from annual to monthly frequency, or
2		denominated in constant/real dollar terms instead of nominal.
3		
4	Q.	What are the sources for the third party data used to develop the sales forecast?
5	А.	The majority of economic and demographic data used in the forecast are provided by
6		IHS Global Insight, and the forecasts are adjusted based on economic impact simulation
7		in the Regional Economic Model Inc. software ("REMI") to ensure employment and
8		population series are consistent with the Company's Industrial customer assumptions.
9		
10	Q.	How does Minnesota Power take weather into account in developing its sales
11		forecast?
12	А.	Energy sales forecasts assume "Normal Weather" which is defined as a 20-year (April
13		1998 to March 2018) historical average, consistent with the stated preference of the
14		Department of Commerce, Division of Energy Resources' ("Department") in recent
15		Minnesota electric utility rate cases. All historical Heating Degree Day ("HDD") and
16		Cooling Degree Day ("CDD") data is derived directly from the National Oceanic and
17		Atmospheric Administration's ("NOAA") monthly records for Duluth International
18		Airport. Further, the Company does not re-calculate or re-create the historical
19		HDD/CDD series from daily temperature data, nor does it deviate from the NOAA's
20		standard 65 degree base for the calculation of HDD/CDD.
21		
22	Q.	Why is "Normal Weather" important to customer sales forecasting?
23	А.	The assumption of normal weather is important because certain customer classes, such
24		as Residential and Commercial, are heavily influenced by weather. If Minnesota Power
25		were to assume very mild weather in the forecast timeframe, then the sales forecast
26		would likely be too low. Assuming extreme weather in the forecast would produce an
27		outlook that is likely to be too high. A 20-year average "Normal Weather" assumption
28		helps ensure the outlooks for weather-sensitive classes are in the middle of possible
29		outcomes and represent a 50/50 forecast with regards to weather. This method is
30		consistent with best practices in forecasting electric utility sales.

1 Q. Has Minnesota Power's AFR forecast process produced accurate forecasts?

A. Yes, generally. Table 3 below shows AFR forecasts since the 2010 AFR with current
and year-ahead forecast errors highlighted. Since the Company's 2010 AFR forecast,
the Company's year-ahead forecast error has averaged 2.4 percent over-forecast.
However, the unforeseeable and significant iron/steel industry downturn in 2015-2016
accounts for most of this forecast error. Without the 2015-2016 downturn years
included, year-ahead forecast error averages only 0.2 percent lower than actual sales.

8 9

Table 3.



Total Energy Sales Forecast Error

- 10
- 11

Q. Did Minnesota Power make any refinements to its sales forecast methodology since
the filing of its last rate case (Docket No. E015/GR-16-664) (the "2016 Rate Case")?
A. Yes. The 2017 test year forecast leveraged the Company's 2016 AFR forecast, and
successive AFRs have included continuous methodological improvements to better
model and predict customer energy requirements.

17

18 Q. Can you describe these improvements?

A. Yes. The 2017 AFR and 2018 AFR improvements focused on peak demand and
 industrial sector energy requirements modeling. The 2017 AFR improved monthly peak
 demand modeling by leveraging weather observations specific to the hour in which the
 peak occurred. The 2018 AFR featured a Minnesota Iron Industrial Production Index
 instead of the National Iron Production Index. The Minnesota index more closely

1		correlates with historical sales to the Company's mining customers and compensates for
2		recent changes in the mining industry's composition; namely, the closure of a sizeable
3		iron mine in northern Michigan.
4		
5	Q.	What improvements were incorporated into the 2019 AFR?
6	A.	The 2019 AFR featured several new methodological enhancements to improve the
7		Residential and Commercial energy sales forecasts by incorporating the projected
8		impacts of energy efficiency, electric vehicle adoption, and distributed generation (DG)
9		solar adoption. A summary of the 2019 AFR sales forecast by revenue class for 2019
10		to 2033 is provided in MP Exhibit (Levine), Direct Schedule 6.
11		
12	Q.	How did Minnesota Power account for the impact of energy efficiency in its 2019
13		AFR forecast?
14	A.	The Company's approach to forecasting energy efficiency for the 2019 AFR was to use
15		energy efficiency as an input variable to the regression models. This methodology is
16		referred to as the "Energy Efficiency as a Right Hand Side Variable" or "EE as RHS
17		var" method. Minnesota Power identified this as its preferred approach after research,
18		testing, and review by colleagues at other Midwest utilities, and engaging in discussions
19		with the Department of Commerce.
20		
21	Q.	What are the benefits of this methodology?
22	A.	The "EE as RHS var" methodology has several advantages over other common energy
23		efficiency forecasting methodologies, including that it:
24		• Avoids double-counting energy efficiency impacts in the forecast timeframe;
25		• Accounts for historical and projected conservation resulting from both Company
26		programs and organic, customer-driven efforts;
27		• Leverages raw sales data in regression modeling: sales data are not adjusted for
28		conservation impacts prior to modeling; and
29		• Does not require after-the-fact adjustments to econometric outputs: the energy
30		sales forecasts already contain the effects of energy efficiency.
31		

1 An "Energy Efficiency" variable explains recent trends in customer consumption that 2 cannot be explained by economic, demographic, or weather effects. Further, this 3 method allows the Company to quantify the volume of Conservation Improvement 4 Program (CIP) energy efficiency embedded in the load forecast, which will be useful in 5 a number of applications including resource plan modeling.

- 6
- 7 8

Was this methodology for projecting energy efficiency also applied to the 2018 **Q**. AFR forecasts used to produce the 2020 test year forecast?

9 Yes. As I noted earlier in my testimony, the 2019 AFR was not completed in time to A. 10 use in 2020 test year forecast development. However, the energy efficiency forecasting 11 methodology was established and necessary data had already been gathered, so this 12 method was used to update the 2018 AFR forecasts. An "Energy Efficiency" variable 13 was added to existing 2018 AFR model specifications for the Residential, Commercial, and Public Authorities energy sales models, and models were rerun to produce forecasts 14 15 that accounted for energy efficiency impacts. These updated 2018 AFR forecasts were 16 used in the 2020 test year sales forecast, and are nearly identical to the 2019 AFR results.

17

18

0. What methodology did Minnesota Power employ to calculate the impact of electric 19 vehicles and solar distributed generation in its 2019 AFR?

20 A. Electric vehicle and distributed solar impacts were not estimated via an econometric 21 process like the energy efficiency forecasting method described above. Instead, the 22 overall energy sales impact of each new technology was calculated first and this impact 23 was applied as an arithmetic adjustment to the raw econometric projection. The 24 arithmetic adjustments for both electric vehicle and distributed solar were calculated by 25 combining a projected unit adoption rate with an estimate of per-unit impact on sales. 26 A more complete description of the process and a full documentation of the 27 methodologies are included in the 2019 AFR, Volume 4, Workpapers, Schedule OS-4 28 at page 15.

1	Q.	Were electric vehicles and solar DG impacts included in the 2020 test year sales
2		forecast?
3	A.	No. The methodologies and data necessary for projecting EV and DG solar impacts
4		were not available as of the test year forecast's development.
5		
6	Q.	Would electric vehicles and distributed solar impacts effect the test year sales
7		forecast in a significant way?
8	А.	No, for two reasons. First, overall electric vehicle and distributed solar penetration
9		within Minnesota Power's customer base is expected to remain minimal through the end
10		of 2020. Second, the impacts of electric vehicle and distributed solar are mostly
11		offsetting: electric vehicle adoption will add energy sales while distributed solar
12		adoption will result in lower sales. Adding the 2019 AFR's projected impacts of electric
13		vehicle and distributed solar to the 2020 test year outlook would reduce the test year
14		forecast by less than 0.01 percent (535 MWh).
15		
16		B. <u>Methodology for Forecasting Sales to Large Customers</u>
17	Q.	What methodology was used to forecast test year sales to large industrial and resale
18		customers?
19	A.	Minnesota Power employs a "bottom-up," customer-by-customer approach to forecast
20		sales to our large industrial and resale customers. Minnesota Power's large industrial
21		customers include the following customer sectors: (1) Mining and Metals; (2) Paper and
22		Pulp; (3) Pipelines; and (4) Other Industrial.
23		
24	Q.	Please describe this "bottom-up" approach to forecasting large industrial and
25		resale energy sales in the 2020 test year forecast.
26	A.	Projections for each individual large industrial and resale customer were developed in
27		cooperation with each customer, taking into account the nuances of the individual
28		customers' operation, but these forecasts are also informed by the national economic
29		trends identified during the AFR modeling process. The individual customer estimates
30		are then aggregated to a class total, which constitutes a "bottom-up" forecast approach,

1 Power Direct Testimony of Company witness Mr. Frederickson describes the process 2 of gathering information directly from large power customers and the development of 3 individual customer outlooks for this "bottom-up" forecasting approach. 4 5 Why is the "bottom-up" approach necessary for developing the 2020 test year **Q**. 6 forecast for the large industrial and resale customers? 7 There are two reasons why a "bottom-up" approach is necessary for projecting 2020 A. 8 sales to the industrial class. 9 10 First, AFR modeling produces sector (or class-level) forecasts, and lacks the customer-11 level and rate class level detail necessary for short-term forecasting and budgeting 12 processes. The 2018 AFR and 2019 AFR modeling of Mining and Paper sectors use 13 national and state-level (macro) economic indicators such as IPI, which are excellent 14 for determining general industry trends and building outlooks for long-term planning, 15 but this modeling will not produce outlooks with sufficient detail for a test year forecast. 16 17 Second, the 2019 AFR was not complete in time for use in the 2020 test year forecast 18 and the 2018 AFR was developed during the first half of 2018. Since early 2018, there 19 have been several developments in our customers' operations that have affected the 20 2020 sales outlook for large industrial and resale customer energy sales. This updated 21 customer information was included in the 2020 test year forecast. 22 23 IV. **TEST YEAR SALES FORECAST** 24 Q. How are the customer counts and sales forecasts for the 2020 test year used in this proceeding? 25 26 Customer count and energy sales forecasts are used to calculate projected revenue under A. 27 current rates and projected revenue under the rates proposed for the 2020 test year. The 28 Direct Testimony of Company witness Ms. Marcia A. Podratz describes the processes 29 of integrating the sales forecast and revenue calculations with Minnesota Power's 30 financial schedules, rate design information, and class cost-of-service study. 31

- 1 Q. What is the rate impact if the test year sales forecast overstates actual sales?
- A. Generally speaking, if actual energy sales are lower than the test year's projected volume of sales, then rates will have been set too low to achieve the revenue requirement. On the other hand, if actual energy sales are higher than the test year forecast, then rates will have been set higher than necessary to achieve the revenue requirement.
- 8 Rates set in this rate review proceeding should be based on a reasonable estimate of 9 energy sales to ensure Minnesota Power does not over or under recover its revenue 10 requirement.
- 11

Q. Please summarize Minnesota Power's customer count forecast for the 2020 test year.

- A. Minnesota Power's 2020 test year forecast includes approximately 147,270 retail
 customers. This is an increase of approximately 530 customers (0.4 percent) over 2018
 actual retail counts (146,741 retail customers). About half of the projected customer
 count increase is attributable to Residential account growth and the remaining half is
 predominantly Commercial account growth.
- 19

20 Q. Please summarize Minnesota Power's sales forecast for the 2020 test year.

A. The Company's 2020 test year's retail sales forecast of 9,236,267 MWh is 2.3 percent higher than 2018 actual retail sales (9,027,899 MWh) and 2.7 percent higher than 2017 actual retail sales (8,997,352 MWh). The majority (about 90 percent) of the projected increase relative to recent years' sales is attributable to a new non-firm retail sales contract with SBPC³. The remainder of the retail sales growth is due to increased sales to the Commercial class and smaller Industrial customers. These increases relative to

³ As a "Non-Firm Retail" customer, SBPC's cost of purchased energy is set independently of Large Power rates for customer, demand, and energy, similar to other Large Power energy products. Further, other retail rates are set independent of SBPC's energy sales, as shown on page 2 of the Company's E-schedule, where it is included in the "Large Power (Other)" category. This is consistent with how SBPC energy was handled in Minnesota Power's 2016 Rate Case.

recent years' actual sales are offset by decreased sales to the Paper and Pulp sector due
 to the closure of Blandin Paper Machine # 5 at the end of 2017.

- 4 The Company's 2020 test year energy forecast, inclusive of resale energy sales, of 5 10,598,981 MWh is comparable to actual sales in recent years, although slightly lower. 6 Specifically, the test year forecast of retail and resale energy is 0.4 percent lower than 7 2018 actual sales (10,638,690 MWh) and 0.5 percent lower than 2017 actual sales 8 (10,654,217 MWh). The decrease in 2020 test year sales, inclusive of resale energy 9 sales, as compared to recent actuals is almost entirely attributable to four changes: (1) 10 the closure of the Husky refinery in Superior, Wisconsin, (2) the permanent closure of 11 Blandin Paper Machine # 5 in December 2017, (3) the termination of Brainerd Public 12 Utilities' contract with Minnesota Power in July 2019, and (4) the cancelation of Xcel 13 Energy's contract with Laurentian Energy Authority.
- 14

3

15

V. ACCURACY OF SALES FORECAST APPROVED IN LAST RATE CASE

16 Q. What is the purpose of this section of your testimony?

- 17 In this section of my testimony I provide a comparison of actual sales for 2017 with the A. 18 2017 test year sales forecast that was approved in the Company's 2016 Rate Case. I explain why the approved 2017 test year overestimated actual 2017 sales, and address 19 20 a key reason for the overestimation; namely, an unrealistically high assumption for the 21 Mining and Metals sector. I describe how the Commission arrived at this assumption 22 for the Mining and Metals sector for the 2017 test year and then use actual historical 23 taconite production data to contextualize the approved 2017 test year sales forecast and 24 the proposed 2020 test year forecast assumptions.
- 25

Q. How did 2017 actual sales compare with the test year sales forecast for 2017 approved in Minnesota Power's 2016 Rate Case?

A. As shown in Table 4, the 2017 test year sales forecast approved by the Commission over
 forecasted actual 2017 retail energy sales by about 5.2 percent. Sales to all customer
 classes were over forecast, with the largest difference due to the over forecasting of sales

to Industrial customers followed by Residential and Commercial customers. This comparison is also provided in MP Exhibit (Levine), Direct Schedule 3.

3

4

Table 4.

		PUC-Approved		
MWh Sales	Actual 2017 Sales	2017 Test Year	Difference (MWh)	% Difference
Residential	1,010,955	1,088,402	77,447	7.7%
Commercial	1,223,786	1,281,310	57,524	4.7%
Industrial				
Mining and Metals	4,930,188	5,088,594	158,405	3.2%
Paper and Pulp	1,104,160	1,213,100	108,940	9.9%
Pipelines	345,263	390,180	44,917	13.0%
Other Industrial	318,181	335,448	17,267	5.4%
Total Industrial	6,697,793	7,027,322	329,529	4.9%
Government & Light	64,818	71,511	6,694	10.3%
Total Retail	8,997,352	9,468,545	471,193	5.2%

5 6

7

8

Q. Please explain why the approved 2017 test year included a forecast of higher sales to Residential and Commercial customers than what actually occurred.

A. Residential and Commercial customer sales were over forecast by 7.7 percent and 4.7
percent (respectively) because the 2017 test year forecasts did not fully account for
energy efficiency impacts. Additionally, the weather in 2017 was mild. Temperatures
in Duluth were 6 degrees warmer-than-normal in January and February, and 3 degrees
cooler-than-normal during July and August, which reduced the energy required for both
heating and cooling, and suppressed actual sales to both customer classes.

15

Q. Please explain why the approved 2017 test year forecasted higher sales to Paper and Pulp customers than what actually occurred.

A. The Company's 2017 test year forecast for sales to Paper and Pulp included a fairly
intensive energy use per ton assumption, so the 2017 outlook was fairly optimistic.
Actual 2017 energy sales were moderated by occasional, temporary idling of production
at several mills in response to short-term market conditions, and Blandin's Paper
Machine # 5 was idled indefinitely in December of 2017 due to the longer-term, secular
decline in the market for printing and writing papers. As a result, actual sales to Paper

1		and Pulp customers in 2017 were lower than could have been anticipated and much
2		lower (about 10 percent) than the fairly optimistic 2017 test year forecast.
3		
4	Q.	Please explain why the approved 2017 test year over predicted sales to Mining and
5		Metals customers.
6	A.	U.S. Steel's Keewatin mining facility ("Keetac") is one of Minnesota Power's largest
7		customers. The Commission-approved 2017 test year forecast reflected a full year's
8		worth of operations at Keetac, but the facility was idle for the first month and a half of
9		2017 so the test year was very likely to overstate sales to the mining sector. The
10		Commission-approved 2017 test year also assumed all mining facilities would operate
11		at their maximum without any inventory or major maintenance issues, which was an
12		optimistic assumption and thus likely to result in an overstated test year.
13		
14	Q.	How did the Commission arrive at its forecast assumptions for Mining and Metal
15		customers?
16	A.	When Minnesota Power filed its last rate case on November 1, 2016, the Keetac facility
17		had been idled since the second quarter of 2015 due to increased steel imports, and this
18		facility was expected to remain idle throughout the 2017 test year. As a result,
19		Minnesota Power's initial 2017 test year sales forecast filed in September 2016 did not
20		include sales to Keetac.
21		
22		In December 2016, U.S. Steel announced plans to restart the Keetac facility in 2017.
23		Following this announcement, Minnesota Power notified the Commission of this new
24		information on December 12, 2016, and submitted a supplemental test year forecast on
25		February 28, 2017 that assumed Keetac would restart operations in March 2017 and test
26		year sales would equate to slightly more than nine months of full of production by
27		Keetac, which would be consistent with historic full year production levels. Table 5
28		shows a comparison of Minnesota Power's supplemental 2017 test year forecast
29		compared to actual 2017 sales. This comparison is also provided in MP Exhibit
30		(Levine), Direct Schedule 4.
31		

Docket No. E015/GR-19-442 Levine Direct and Schedules

Table 5.

		MP Supplemental		
MWh Sales	Actual 2017 Sales	Test Year	Difference (MWh)	% Difference
Residential	1,010,955	1,088,402	77,446	8%
Commercial	1,223,786	1,281,310	57,524	5%
Industrial				
Mining and Metals	4,930,188	4,832,432	(97,757)	-2%
Paper and Pulp	1,104,160	1,213,100	108,940	10%
Pipelines	345,263	390,180	44,917	13%
Other Industrial	318,181	335,448	17,267	5%
Total Industrial	6,697,793	6,771,160	73,367	1%
Government & Light	64,818	71,511	6,694	10%
Total Retail	8,997,352	9,212,383	215,031	2%

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In response to the Company's supplemental 2017 test year forecast filing, several stakeholders argued that the 2017 test year should reflect a full year of production at Keetac, along with full production by other mining customers, and according to these stakeholders this adjustment would involve increasing the Company's supplemental test year forecast. The Commission agreed and concluded that the approved 2017 test year sales forecast should reflect 12 months of sales to Keetac and all other mining customers.

11

Q. What is your assessment of the mining assumption in the approved 2017 test year forecast?

A. The approved 2017 test year forecast of Mining and Metals sales was set unrealistically
high. The Company's supplemental 2017 test year forecast assumed all mining facilities
other than Keetac were at their maximum production levels, without any inventory or
major maintenance issues. The nearly three months of economic idling at Keetac was
a proxy for all production decreases at all mines that one should expect in a typical year.

19

When the Commission ordered the 2017 test year to include a full 12 months of operation by Keetac, it created a mining sector forecast where all facilities were operating a full 12 months at full capacity. This resulted in the Commission-approved 2017 test year forecast for Mining and Metals (5,088,594 MWh) being consistent with

- an exceptionally-high, near-maximum level of taconite production (i.e., a 95.4 percent utilization rate).
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To achieve such a high level of production and sales, all mines would need to: (1) maintain operations year-round, and (2) operate near maximum production for that entire 12-month period. Neither of these conditions is likely to occur in isolation and both conditions are extremely unlikely to occur simultaneously.

8

9 10

Q. Please explain why it is unlikely for Minnesota Power's mining customers to maintain operations for entire 12-month period.

- A full 12-month production schedule by every single mine, where no capacity is idled
 for economic reasons, is not very common. Economic conditions (i.e., demand for iron
 and steel products) must be sufficient to support a full 12-month production schedule,
 and this has only happened five times in the near-two-decade period since the closure
 of the LTV mine.
- 16

17Q.Please explain why it is unlikely for Minnesota Power's mining customers to18maintain near-maximum production for a full 12 month period.

- A. Operating at near-maximum production for an entire 12-month period by any individual
 mine is moderately likely, but for all six mining facilities to manage near-maximum
 production in the same 12-month period is virtually impossible. Invariably, at least one
 of the mining facilities will require maintenance or experience an ore quality issue that
 results in reduced production and energy usage.
- 24

Figure 17 compares actual historical utilization rates to the approved 2017 test year forecast assumption. As shown in Figure 17, full production years are uncommon. The "full production" level (black dotted line) of 96 percent refers to a level nearing the Mesabi Range's 41 Million Ton ("MT") per-year maximum production capacity. This level was achieved just twice in the last two decades, and only a handful of years (about 40 percent) were at "full production" or "near-full production" (utilization above 92 percent). The Commission-approved test year forecast for Mining and Metals (5,088,594 MWh) is consistent with an exceptionally-high, near-maximum level of production (a 95.4 percent utilization rate).

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Q. What is a reasonable expectation for energy sales to Mining and Metals customers 8 if all facilities operate for a full 12 months?

9 A. The Company's supplemental 2017 test year forecast of sales to the Mining and Metals
10 sector of 4,832,432 MWh, which equates to a 90.2 percent utilization rate, was a
11 reasonable forecast assumption for Mining and Metals customer utilization.

12

A "near-full" utilization rate of 90-92 percent accounts for the high likelihood of maintenance issues, inventory issues, or economically-driven idling (i.e., less than a full 12-month schedule); any of these will result in less than "full" production, and at least one of these conditions is very likely to occur in any given year. Given this, a "nearfull" production assumption is considerably more reasonable than a "full" production assumption.

Q. What are typical sales to Mining and Metals customers during an extreme full production year?

A. A recent example is 2018, when Minnesota Power's sales to the Mining and Metals
sector reached 5,039,138 MWh. Taconite production in 2018 was at its effective
maximum at about 39.1 MT, which is a 95.1 percent utilization rate. This high level of
production is very uncommon and was last experienced more than ten years prior in
2008. Sales in 2018 should be viewed as an upper book-end of what is plausible in an
extreme "full production" year.

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Q. Why was 2018 taconite production so high?

11 A. There was good alignment of the demand and supply sides of the iron and steel market 12 in 2018. Domestic demand for steel and the seaborne market for taconite pellets were 13 strong enough to support a 12-month operation schedule at all mines. Customer energy 14 consumption in the year implies there was no irregular, extended maintenance at any of 15 the six mining facilities.

16

17 Q. How did 2018 actual sales compare to the approved 2017 test year sales forecast?

- A. During this atypical production year, the sales to the Mining and Metals sector still only
 reached 5,039,138 MWh, which is about 49,000 MWh (1 percent) lower than the
 approved 2017 test year forecast. This comparison is also provided in MP Exhibit _____
 (Levine), Direct Schedule 7.
- 22

23

Q. What is the current taconite production forecast for 2019?

- A. The Company's expectation for taconite production in 2019 is that it will be lower than
 2018 and closer to a historical average "near-full" production level consistent with a
 utilization rate around 91 percent. As I discussed earlier in my testimony, there are
 some noteworthy industry developments and macroeconomic trends that point to
 potential near-term weakness in demand for iron and steel. The idling of U.S. Steel's
 Minntac line three for the remainder of 2019 is perhaps the first manifestation on the
 Iron Range of this industry weakness.
- 31

Further, even prior to the idling of U.S. Steel's Minntac line three, to-date 2019 energy sales to Mining and Metals customers were about 1 percent lower than 2018 sales were at this time last year, and the most current data from the Lake Carrier's Association⁴ indicates Great Lakes' taconite shipments were down about 4 percent⁵ in 2019/2020 relative to the same point in the 2018/2019 shipping season.⁶ At this point, it is reasonable to assume 2019 taconite production will not exceed levels set in 2018.

7

8 9

Q. Please describe Minnesota Power's 2020 test year taconite production forecast for Mining and Metals customers.

10 For the 2020 test year, the Company assumed all six taconite mining facilities will A. 11 operate year round, and produce about 38 MT of taconite. This level of production 12 equates to a "near-full" 92.3 percent utilization rate, which is 2.1 percentage points higher than a historical average (90.2 percent) and 3.7 percentage points below a full 13 production rate (96 percent). The 2020 test year for taconite production makes 14 15 assumptions for regular maintenance at several mining facilities. As such, the 2020 test 16 year forecast of taconite production is a bit lower than actual 2018 production, given 17 that 2018 was an unusual "full production" year.

18

19Q.How does the Company's 2020 test year total retail sales forecast compare with the20forecast approved in Minnesota Power's 2016 Rate Case?

A. The test year outlook for 2020 retail sales is about 232,278 MWh (2.5 percent) lower
than the approved 2017 test year forecast. A comparison between the 2020 test year
and the approved 2017 test year is provided in Table 6 below and in MP Exhibit _____
(Levine), Direct Schedule 5. The 2020 test year sales forecast assumes lower sales for
Residential, Commercial, Paper, and Pipeline customers as compared to 2017. These
lower sales are only partially offset by increased sales to the Mining and Metals sector.

⁴ http://www.lcaships.com.

⁵ As of August 2019, the most current data available as of this filing.

⁶ Shipping season typically refers to a period from March to January (of the following year). This season differs from a calendar year, and begins when key locks on the great lakes are opened and ice on the great lakes has dissipated or been broken by the U.S. or Canadian Coast Guard icebreakers.

1				Table 6.				
	MV	Vh Sales	2017 Test Year	2020 Test Year	Difference (MWh) % Difference			
	Res	idential	1,088,402	1,049,317	(39,085)	-3.6%		
	Cor	nmercial	1,281,310	1,261,298	(20,012)	-1.6%		
	Ind	ustrial						
	N	lining and Metals	5,088,594	5,205,159	116,565	2.3%		
	Р	aper and Pulp	1,213,100	1,004,987	(208,113)	-17.2%		
	Р	ipelines	390,180	333,975	(56,205)	-14.4%		
	0	ther Industrial	335,448	318,979	(16,469)	-4.9%		
	Tot	al Industrial	7,027,322	6,863,100	(164,222)	-2.3%		
	Go	vernment & Light	71,511	62,552	(8,959)	-12.5%		
2	lot	al Retail	9,468,545	9,236,267	(232,278)	-2.5%		
3								
4		The 2020 test ye	ar sales forecasts	for Residential	and Commercial sales	s are lower as		
5		they include the f	ull effects of the	most current ene	ergy efficiency levels.			
6								
7		The 2020 test ye	ar forecast of Mi	ning and Metals	energy sales includes	s new sales to		
8		SBPC, and assum	nes about 38 MT	of taconite produ	ction, which is an app	roximate 92.3		
9		percent utilization	n rate. This near-	full production of	outlook in the 2020 test	t year forecast		
10		is consistent with	the Company's c	current expectation	ons for 2020 mining of	perations, and		
11		is in line with typ	ical levels of tacc	onite production	and energy requiremer	nts.		
12								
13		The 2020 test ye	ar outlook for Pa	per and Pulp cu	stomers is lower than	the approved		
14		2017 test year be	cause it reflects th	e recent closure	of Blandin's Paper Ma	achine # 5 and		
15		slightly lower sal	es at other Paper	and Pulp custom	ers.			
16								
17	Q.	What do you co	nclude based on	this compariso	n of the 2017 test yea	r to the 2020		
18		test year?						
19	A.	The main conclu	sion I draw from	a comparison is	s that the 2017 test year	ar was set too		
20		high, and the 202	20 test year outlo	ok more accurat	tely represents the Cor	mpany's sales		
21		levels. First, th	ne 2020 test yea	r accounts for	recent developments	among large		
22		customers such a	as sales to SBPC	and shutdown	of the Blandin Paper	Machine #5.		

Tabla 6

1		Second, the 2020 test year includes a more reasonable forecast for Minnesota Power's
2		mining customers that is based on typical near-full production levels.
3		
4		Third, the 2020 test year accounts for recent declines in Residential and Commercial
5		sales attributable to energy efficiency. The impacts of energy efficiency were not
6		accurately accounted for in the 2017 test year and this resulted in the Residential and
7		Commercial sales being over forecast. A comparison of Commission-approved 2017
8		test year forecast, 2017 actual sales, 2018 actual sales, and the 2020 test year is provided
9		in MP Exhibit (Levine), Direct Schedule 8.
10		
11		VI. CONCLUSION
12	Q.	Does the 2020 test year forecast provide a reasonable basis for establishing rates
13		in this case?
14	A.	Yes. The 2020 test year retail sales forecast of 9,236,267 MWh is a reasonable estimate
15		of the test year sales. The 2020 test year projection for customer count of 147,268 is
16		also reasonable. Both the retail energy sales and customer count outlooks were
17		developed by combining a robust econometric regression process with the best available
18		customer information. I recommend that the Commission adopt the 2020 test year
19		forecast for sales as shown in MP Exhibit (Levine), Direct Schedule 1 for purposes
20		of determining the revenue requirements and final rates in this proceeding.
21		
22	Q.	Does this complete your testimony?
23	A.	Yes.

MP Exhibit ____ (Levine) Levine Direct Schedule1 Page 1 of 1

Minnesota Power Retail Operations MWh Sales and Customer Counts 2020 test year.

	2020 Test Year					
MWh Sales	Energy Sales (MWh)	Customer Count				
Residential	1,049,317	122,751				
Commercial	1,261,298	23,155				
Industrial						
Mining and Metals	5,205,159					
Paper and Pulp	1,004,987					
Pipelines	333,975					
Other Industrial	318,979					
Total Industrial	6,863,100	374				
Government & Light	62,552	989				
Total Retail	9,236,267	147,268				
Municipals	571,700					
SWLP	791,014					
Total Retail and Resale	10,598,981					

Minnesota Power Retail Operations MWh Sales and Customer Counts 2019 AFR Forecast for 2020 vs. 2020 test year.

	2020 Forecast			
MWh Sales	(2019 AFR)	2020 Test Year	Difference (MWh)	% Difference
Residential	1,053,474	1,049,317	(4,157)	-0.4%
Commercial	1,255,436	1,261,298	5,862	0.5%
Industrial				
Mining and Metals	5,205,309	5,205,159	(150)	0.0%
Paper and Pulp	998,085	1,004,987	6,902	0.7%
Pipelines	333,975	333,975	-	0.0%
Other Industrial	308,795	318,979	10,184	3.3%
Total Industrial	6,846,163	6,863,100	16,937	0.2%
Government & Light	62,374	62,552	178	0.3%
Total Retail	9,217,447	9,236,267	18,820	0.2%
Municipals	571,667	571,700	33	0.0%
SWLP	788,917	791,014	2,097	0.3%
Total Retail and Resale	10,578,032	10,598,981	20,949	0.2%

	2020 Forecast			
Customer Count	(2019 AFR)	2020 Test Year	Difference (MWh)	% Difference
Residential	122,907	122,751	(156)	-0.1%
Commercial	23,184	23,155	(29)	-0.1%
Industrial	366	374	7	2.0%
Government & Light	971	989	17	1.8%
Total Retail	147,428	147,268	(160)	-0.1%

Minnesota Power Retail Operations MWh Sales 2017 vs. Commission-Approved 2017 test year.

		PUC-Approved		
MWh Sales	Actual 2017 Sales	2017 Test Year	Difference (MWh)	% Difference
Residential	1,010,955	1,088,402	77,446	7.7%
Commercial	1,223,786	1,281,310	57,524	4.7%
Industrial				
Mining and Metals	4,930,188	5,088,594	158,406	3.2%
Paper and Pulp	1,104,160	1,213,100	108,940	9.9%
Pipelines	345,263	390,180	44,917	13.0%
Other Industrial	318,181	335,448	17,267	5.4%
Total Industrial	6,697,793	7,027,321	329,529	4.9%
Government & Light	64,818	71,511	6,694	10.3%
Total Retail	8,997,352	9,468,545	471,193	5.2%
Municipals	799,104	845,908	46,804	6%
SWLP	857,761	814,412	(43,349)	-5%
Total Retail and Resale	10,654,217	11,128,865	474,648	4%

MP Exhibit ____ (Levine) Levine Direct Schedule 4 Page 1 of 1

Minnesota Power Retail Operations MWh Sales 2017 vs. Supplemental 2017 test year.

		MP		
	Actual 2017	Supplemental		
MWh Sales	Sales	2017 Test Year	Difference (MWh)	% Difference
Residential	1,010,955	1,088,402	77,446	7.7%
Commercial	1,223,786	1,281,310	57,524	4.7%
Industrial				
Mining and Metals	4,930,188	4,832,432	(97,757)	-2.0%
Paper and Pulp	1,104,160	1,213,100	108,940	9.9%
Pipelines	345,263	390,180	44,917	13.0%
Other Industrial	318,181	335,448	17,267	5.4%
Total Industrial	6,697,793	6,771,160	73,367	1.1%
Government & Light	64,818	71,511	6,694	10.3%
Total Retail	8,997,352	9,212,383	215,031	2.4%
Municipals	799,104	845,908	46,804	5.9%
SWLP	857,761	814,412	(43,349)	-5.1%
Total Retail and Resale	10,654,217	10,872,703	218,486	2.1%

MP Exhibit ____ (Levine) Levine Direct Schedule 5 Page 1 of 1

Minnesota Power Retail Operations MWh Sales 2017 test year vs. 2020 test year.

	PUC-			
	Approved			
	2017 Test			
MWh Sales	Year	2020 Test Year	Difference (MWh)	% Difference
Residential	1,088,402	1,049,317	(39,085)	-3.6%
Commercial	1,281,310	1,261,298	(20,012)	-1.6%
Industrial				
Mining and Metals	5,088,594	5,205,159	116,565	2.3%
Paper and Pulp	1,213,100	1,004,987	(208,113)	-17.2%
Pipelines	390,180	333,975	(56,205)	-14.4%
Other Industrial	335,448	318,979	(16,469)	-4.9%
Total Industrial	7,027,321	6,863,100	(164,221)	-2.3%
Government & Light	71,511	62,552	(8,959)	-12.5%
Total Retail	9,468,545	9,236,267	(232,278)	-2.5%
Municipals	845,908	571,700	(274,208)	-32.4%
SWLP	814,412	791,014	(23,398)	-2.9%
Total Retail and Resale	11,128,865	10,598,981	(529,884)	-4.8%

Minnesota Power 2019 AFR Forecast by Revenue Class

MP Exhibit ____ (Levine) Levine Direct Schedule 6 Page 1 of 1

						Industrial				Total Sales			
	Years	Residential	Commercial	Lighting	Public Auth	Mining_Metal	Paper_Pulp	Pipe/Other	Total_Ind	Resale	Retail	Retail & Resale	Years
History	2010	1,057,476	1,221,753	15,834	61,766	4,324,450	1,572,565	467,062	6,364,077	1,696,508	8,720,906	10,417,414	2010
	2011	1,069,856	1,226,174	16,420	62,457	4,874,331	1,559,519	479,799	6,913,648	1,699,644	9,288,556	10,988,200	2011
	2012	1,043,281	1,237,386	15,954	54,074	4,968,517	1,570,852	498,474	7,037,843	1,718,819	9,388,538	11,107,357	2012
	2013	1,086,481	1,256,540	16,066	51,736	4,851,094	1,505,113	517,786	6,873,992	1,700,993	9,284,816	10,985,809	2013
	2014	1,112,579	1,262,464	16,400	53,236	4,879,520	1,498,810	568,206	6,946,536	1,647,763	9,391,215	11,038,979	2014
	2015	1,026,454	1,254,681	15,801	54,470	4,000,557	1,456,091	616,625	6,073,273	1,634,786	8,424,680	10,059,466	2015
	2016	1,015,465	1,243,045	15,588	51,455	3,906,570	1,302,920	646,339	5,855,829	1,649,406	8,181,382	9,830,788	2016
	2017	1,010,955	1,223,786	14,873	49,945	4,930,188	1,104,160	663,444	6,697,793	1,656,865	8,997,352	10,654,217	2017
	2018	1,052,800	1,233,117	14,206	49,884	5,039,138	987,208	651,545	6,677,891	1,610,791	9,027,899	10,638,690	2018
Forecast	2019	1,053,246	1,236,911	14,776	47,895	4,972,959	1,015,838	665,195	6,653,992	1,420,554	9,006,820	10,427,373	2019
	2020	1,053,474	1,255,436	15,087	47,287	5,205,309	998,085	642,770	6,846,163	1,360,585	9,217,447	10,578,032	2020
	2021	1,050,720	1,259,858	14,990	47,116	5,196,724	996,478	648,892	6,842,095	1,462,815	9,214,779	10,677,595	2021
	2022	1,052,541	1,269,402	14,923	46,827	5,405,168	992,892	620,492	7,018,553	1,512,771	9,402,245	10,915,017	2022
	2023	1,055,480	1,283,122	14,825	46,851	5,564,801	989,011	625,713	7,179,526	1,520,156	9,579,805	11,099,961	2023
	2024	1,061,906	1,297,983	14,789	46,690	5,594,393	986,745	632,700	7,213,838	1,532,220	9,635,206	11,167,426	2024
	2025	1,061,821	1,301,607	14,705	45,727	5,592,946	977,425	637,135	7,207,506	1,535,862	9,631,366	11,167,228	2025
	2026	1,065,500	1,311,799	14,650	45,272	5,605,255	971,690	643,437	7,220,383	1,539,889	9,657,604	11,197,493	2026
	2027	1,070,421	1,323,531	14,614	45,046	5,611,691	966,250	648,963	7,226,904	1,550,188	9,680,516	11,230,704	2027
	2028	1,079,021	1,337,735	14,629	44,882	5,634,340	964,093	659,490	7,257,923	1,562,388	9,734,190	11,296,578	2028
	2029	1,080,726	1,341,957	14,531	44,270	5,620,357	957,350	668,839	7,246,546	1,566,301	9,728,030	11,294,330	2029
	2030	1,086,375	1,352,312	14,489	43,988	5,616,364	954,268	679,503	7,250,135	1,579,873	9,747,299	11,327,172	2030
	2031	1,092,787	1,363,953	14,451	43,848	5,610,289	950,444	689,945	7,250,678	1,584,660	9,765,716	11,350,375	2031
	2032	1,104,119	1,380,261	14,461	43,808	5,615,263	949,981	701,176	7,266,420	1,602,054	9,809,070	11,411,124	2032
	2033	1,110,585	1,387,973	14,375	43,621	5,586,514	944,758	706,717	7,237,989	1,609,954	9,794,544	11,404,499	2033

MP Exhibit ____ (Levine) Levine Direct Schedule 7 Page 1 of 1

Minnesota Power Retail Operations MWh Sales 2017 test year vs. 2018 actuals

	PUC-Approved			
MWh Sales	2017 Test Year	2018 Actual Sales	Difference (MWh)	% Difference
Residential	1,088,402	1,052,800	(35,601)	-3.3%
Commercial	1,281,310	1,233,117	(48,193)	-3.8%
Industrial				
Mining and Metals	5,088,594	5,039,138	(49 <i>,</i> 456)	-1.0%
Paper and Pulp	1,213,100	987,208	(225,892)	-18.6%
Pipelines	390,180	345,597	(44,583)	-11.4%
Other Industrial	335,448	305,948	(29,500)	-8.8%
Total Industrial	7,027,322	6,677,891	(349,430)	-5.0%
Government & Light	71,511	64,090	(7,421)	-10.4%
Total Retail	9,468,545	9,027,899	(440,646)	-4.7%
Municipals	845,908	797,853	(48,055)	-5.7%
SWLP	814,412	812,938	(1,474)	-0.2%
Total Retail and Resale	11,128,865	10,638,690	(490,175)	-4.4%

Minnesota Power Retail Operations MWh Sales 2017 actual, 2017 test year, 2018 actual, and 2020 test year.

		PUC-Approved		
MWh Sales	Actual 2017 Sales	2017 Test Year	2018 Actual Sales	2020 Test Year
Residential	1,010,955	1,088,402	1,052,800	1,049,317
Commercial	1,223,786	1,281,310	1,233,117	1,261,298
Industrial				
Mining and Metals	4,930,188	5,088,594	5,039,138	5,205,159
Paper and Pulp	1,104,160	1,213,100	987,208	1,004,987
Pipelines	345,263	390,180	345,597	333,975
Other Industrial	318,181	335,448	305,948	318,979
Total Industrial	6,697,793	7,027,322	6,677,891	6,863,100
Government & Light	64,818	71,511	64,090	62,552
Total Retail	8,997,352	9,468,545	9,027,899	9,236,267
Municipals	799,104	845,908	797,853	571,700
SWLP	857,761	814,412	812,938	791,014
Total Retail and Resale	10,654,217	11,128,865	10,638,690	10,598,981