

MN utilities plan coal shortage strategies as rail network struggles to keep up

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By: **Peter Passi**, Forum News Service

DULUTH, Minn. -- Four northern Minnesota power units will be fired up again after a more than two-month shutdown in the face of difficulties obtaining shipments of coal by rail.

Two units at Minnesota Power's Laskin Energy Center in Hoyt Lakes were restarted last week and the Duluth-based company pledges to fire up two more coal-burning generators at its Taconite Harbor facility in Schroeder before Jan. 1.

The generators were idled as part of a conservation strategy, explained Pat Mullen, Minnesota Power's vice president of marketing and corporate communications.

Mullen said the company took steps to avoid a potential re-emergence of problems it encountered last winter when the Burlington Northern & Santa Fe Railway failed to deliver the coal needed to sustain operations.

Minnesota Power is far from the only entity that has struggled with rail freight service, as increasing quantities of oil and natural gas move by tanker car down the tracks, often displacing traditional cargos.

"We asked: How do we protect our customers? Because last year, we had a very similar thing happen," Mullen said.

"We were very short on coal going into the winter last year, with assurances from the railroad that did not materialize. And we were caught short on coal in December and January, when it was so cold that we were actually buying energy on the market at very high prices. We knew going into this winter we did not want to repeat that," he said.

The increased costs were passed on to customers, large and small.

At Minnesota Power's request, a senior executive from the BNSF visited in March to explain the situation directly to some of the company's hardest-hit large customers, including several players in the mining industry.

"This had gone too far. We were really disappointed in the level of service we were getting, and for us just to share with our customers that — jeez, we're disappointed — wasn't enough," Mullen said. "We wanted them to understand that we were doing everything we could on their behalf. So we had a senior executive from the BNSF come in here special to address our largest customers to help them understand what they were doing, why they were doing it and what commitment they were making to solve this problem."

Mullen said BNSF did respond and stepped up service in the spring.

"But then it slowed way down through the summer, to the point where it became alarming again as we got into late July and early August, which triggered us to set up a proactive plan to make sure that we protected our customers this winter," he said.

When it shut down units at Laskin and Taconite Harbor this fall, Minnesota Power was able to buy electricity at prices so favorable that Mullen said: "It wasn't far off of a wash, in terms of what we paid for the energy and what we saved on the coal."

"There was a gap there, but it wasn't huge," he said. "It was a reasonable cost to protect our coal reserves for much colder weather. And so we did start to rebuild our inventories back up.

Ideally, Mullen said, Minnesota Power would maintain an on-hand coal inventory sufficient to allow for 25 to 30 days of operation, and while it hasn't quite reached that threshold, he characterized the current supply as "adequate."

"I really do feel confident about where we are and where we'll be for winter, assuming that the railroad will keep the schedule they've assured us they will," he said. "The only caveat is that if for some reason the railroad does not keep on the plan they have shared with us about meeting their requirements to us. But as long as they keep that, we're confident we will have the coal we need to make sure our customers have the low-cost generation that we provide ourselves."

Amy McBeth, a spokeswoman for BNSF, contends the railroad continues to make strides.

"BNSF is in regular communication with our customers, working with them directly on their most urgent issues," she said. "We are making progress in continuing to grow coal stockpiles. Our network is experiencing favorable conditions and maintaining good fluidity and velocity while having a higher than average number of trains on the system as we deliver some of our largest volumes of the year."

Of late, Mullen said, Minnesota Power's top brass has been in weekly conversations with the CEO of BNSF.

"It's at that level of urgency in our company," Mullen said.

Mullen said he's optimistic Minnesota Power will make it through the coming winter without any big hitch, but he's less confident about the long-term outlook.

Other companies have struggled to obtain adequate supplies of coal, as well, and many of them, including Minnesota Power, have joined forces to advocate for federal intervention as part of a group called the Western Coal Traffic League. The group has petitioned the federal Surface Transportation Board to impose a timetable for upgrades to BNSF's rail system and a plan to improve service.

Mullen expressed his hope that the collective voice of power producers will be heard and heeded.

"The longer this problem goes on, the more we continue to look for options to create visibility around this issue to solve it," he said. "I think it's the most prudent thing we can do on our customers' behalf is to try to make sure that we have the resources to meet our customers' needs over the long term at the best possible cost. I think a basket of excuses at the end of the day — that we did the best we could but nothing helped — isn't good enough. We have to make things happen."

McBeth said BNSF is already taking action on its own.

"We have been working to achieve better velocity and fluidity on our rail network. Concurrent with capital projects intended to increase capacity, we are implementing various operational tactics that will improve velocity and throughput of train traffic. While the process is dynamic, we are confident that the various approaches we are taking to generate better fluidity to the network will be successful," she said.

"Just this past week we announced our plan to spend \$6 billion on expansion and maintenance of the railroad to meet the expected demand for freight rail service," McBeth said, describing BNSF's service upgrades. "This marks the third year in a row we have committed a record amount for capital investments."

But Mullen called on BNSF to lay out and commit to following an agreed-upon long-range plan.

"If they just shared with us a plan that they would follow that showed how they were going to meet our needs, it would be a helpful start," he said.

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