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This question is: ___ Non-Public

X Public

State of Minnesota
Public Utilities Commission

Utility Information Request

Docket Number: E-015/M-14-349 Date of Request: October 13, 2014

Requested From: Minnesota Power Response Due: October 23, 2014

Analyst Requesting Information: Dorothy Morrissey

Type of Inquiry:

x	Financial		Rate of Return		Rate Design
	Engineering		Forecasting		Conservation
	Cost of Service		CIP	x	Other:

If you feel your response contains non-public information, please indicate.

Request Number	
2.	Regarding North Dakota corporate tax credit, *Geothermal, Solar, Wind or Biomass Energy Device Credits*, the North Dakota Corporate Income Tax Credit Instructions state: *A corporation that holds an interest in a passthrough entity (partnership, subchapter S Corporation, or limited liability company) that qualifies for this credit may claim its share of the tax credit in proportion to its interest in the entity. The credit must be claimed in the same taxable year in which the taxable year of the passthrough entity ends.* *Corporate taxpayers in a consolidated combined return may apply the credit against the aggregate tax liability on their North Dakota income tax return.*

Response by: Jamie Jago

Title: Manager - Taxes

Department: Minnesota Power Finance Department

Telephone: 218-355-3837

According to the Company's response to MPUC Informa
Inc. currently files a consolidated North Dakota income tax return." The Company response stated "Under current long-term forecasts, Minnesota Power expects to use approximately $10.7 million of the $113 million in ND ITCs generated by the Bison Wind Projects over the respective ND ITC carryforward periods."

A. Please clarify that response by explaining if the stated $10.7 million forecasted use of the ITC earned is the total amount expected to be used to offset the aggregate tax liability of ALLETE, Inc. consolidated ND income tax returns over the carryforward periods. If not, please provide the forecasted total of the Bison Wind Project ITCs earned that Allete expects to use to offset its aggregate tax liability as determined in ALLETE, Inc. consolidated ND income tax returns over the respective ND ITC carryforward periods.

B. In the event that the Bison Wind Projects earned ND ITCs are used in the future to offset ND income tax liability stemming from non-jurisdictional activity, i.e., activity other than Minnesota Power MN PUC regulated activity, please explain what the Company proposes to do, if anything, to credit its Minnesota-jurisdictional ratepayers for the benefit derived from the application of these ND ITCs toward ALLETE, Inc.'s non-jurisdictional tax liability.

Response by: Jamie Jago

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Response:

A. The ALLETE, Inc. and subsidiaries consolidated group is forecasted to use approximately $22 million of ND ITC over the respective ND ITC carryforward periods. Minnesota Power's jurisdictional activity is forecasted to use approximately $10.7 million of the ND ITC based upon the most recent long-term ND taxable income forecast. The difference between the $22 million of estimated consolidated ND ITC use and the MN jurisdictional estimated ND ITC use of $10.7 million, or $11.3 million, is attributable to the apportionment and income impacts of affiliated companies included in the ALLETE Inc. and subsidiaries consolidated group.

B. Minnesota Power has been a part of the ALLETE, Inc. and subsidiaries federal consolidated and state combined returns for decades, along with a variety of other affiliated companies. Minnesota Power has adhered to affiliate interest rules and strives to maintain separation between Minnesota Power and affiliate operations.

   The Commission's stand-alone position was stated in Northern States Power Company's *Authority to Increase Rates for Electric Service in Minnesota* Docket (Docket No. E-002/GR-05-1428). Through adherence to the Commission's stand-alone precedent, the Company does not propose to credit to Minnesota-jurisdictional ratepayers any benefit derived from the use of ND ITCs by ALLETE Inc.'s non-jurisdictional tax liability.

   It is important to note that in the event future ALLETE Inc. non-jurisdictional operations were to prevent the ALLETE Inc. group from ever using any ND ITCs (presumably due to tax losses for the entire ND ITC carryforward period), Minnesota Power would still credit the Minnesota-jurisdictional ratepayers for the amount of ND ITC that would be used by the Minnesota Power MN jurisdictional income, based upon a separate "return-based" calculation.

   The following is an excerpt from the Northern States Power Company's *Authority to Increase Rates for Electric Service in Minnesota,* Docket No. E-002/GR-05-1428, which further explains our position:

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IV.INCOME TAXES

A. The Stand-Alone Approach

139. Xcel used the stand-alone approach in this proceeding, as it has done in each of its prior rate cases and in all of its financial reporting to the Department and Commission. The stand-alone method is one part of the process by which the regulated costs of service are systematically separated from unregulated costs. The stand-alone method determines the regulated income tax expense, which arises solely from regulated revenues and regulated expenses that are allowed recovery in rates. The stand-alone method is intended to accurately reflect the cost of utility service because it matches regulated income tax expense to the regulated revenues and expenses (which lead to the income tax expense). The stand-alone method also supports the policy of maintaining financial separation between regulated and unregulated businesses so that utility customers are responsible only for the costs of providing utility service. The Commission has used the stand-alone method in the past because, if properly implemented, it accurately reflects the cost of providing utility service from both regulatory and financial perspectives.

140. All aspects of the utility cost of service, not just income taxes, are isolated using this same basic approach, beginning with the separation of the costs of regulated operations from the costs of unregulated operations (often of utility affiliates), followed by separating costs by state jurisdiction (and type of regulated service), and finally isolating only those costs that are eligible for rate recovery. More than a decade ago the Commission adopted explicit and specific cost separation requirements to prevent cross subsidization between regulated and unregulated operations.

142. From a financial perspective, the stand-alone method can be used to accurately determine income tax expense because tax expenses are also based on accruals, not cash payments.

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