



May 30, 2017

**Via E-filing**

Daniel P. Wolf, Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, MN 55101

**RE: In the Matter of Minnesota Power's 2015 Renewable Resources  
Rider and Renewable Factor, PUC Docket No. E-015/M-14-962**

Dear Mr. Wolf:

The Edison Electric Institute (EEI) is submitting these comments in the above-referenced docket and in response to the request for comments. In the *Notice of Comment Period*, the Minnesota Public Utilities Commission (MPUC or Commission) identified a number of topics for comment related to the Commission's November 30, 2016 *Order Determining Treatment of North Dakota Investment Tax Credits (ND ITCs) for Bison Wind Projects*, which assigns any and all of the Bison ND ITCs realized by ALLETE, Inc. to its regulated operations.

EEI is the association that represents all U.S. investor-owned electric companies. Our U.S. members provide electricity for 220 million Americans and operate in all 50 states and the District of Columbia. EEI also has dozens of international electric companies as International Members, and hundreds of industry suppliers and related organizations as Associate Members. Safe, reliable, affordable, and increasingly clean energy enhances the lives of all Americans and powers the economy. As a whole, the electric power industry supports more than seven million jobs in communities across the United States and contributes five percent to the nation's GDP.

As part of the most capital-intensive industry, electric companies, like ALLETE, depend on ready access to the capital markets at competitive rates in order to provide customers with affordable electricity. Due to the long-term nature of this investment, electric companies and their customers benefit from regulatory policies

that are well-defined, transparent, and consistently applied. This is because investors expect a degree of regulatory certainty from state regulators before making investments. In its simplest, most uncontroversial form “regulatory certainty” means investors will have some degree of confidence and predictability.<sup>1</sup> Debt and equity investors may become pessimistic about companies in states without sustained regulatory certainty, which would increase the cost of capital and, ultimately, the cost of serving customers.

Under Commission oversight, ALLETE maintains financial and legal separation between its regulated and non-regulated subsidiaries. This separation between affiliates protects the economic viability of Minnesota Power—and its customers—within ALLETE’s structure by insulating Minnesota Power from the potentially riskier activities of non-regulated affiliates. This protects the financial stability of Minnesota Power and the reliability of its electric service to customers. When Minnesota Power’s customers are protected from non-regulated affiliate operations, they cannot benefit from these affiliates’ gains and related tax benefits. This financial and legal separation between Minnesota Power and the non-regulated ALLETE affiliates provides regulatory certainty for electricity customers and for investors.

The asymmetric treatment of ALLETE’s subsidiaries as a result of the assignment of any and all ND ITC benefits realized by non-regulated activities to ALLETE’s regulated operations not only inaccurately reflects the cost of providing electric service, it also undermines the legal and financial separation between ALLETE’s affiliated subsidiaries and the regulatory certainty that is important to investors. This action could be viewed negatively by Wall Street analysts, which would erode their confidence in the regulatory environment in Minnesota. In turn, this can negatively impact not only the company’s cost of capital, but also access to capital markets, which is especially burdensome for a small-to-mid cap company such as ALLETE, Inc. (see Figure 1, below) that has less analyst coverage and lower visibility among investors.

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<sup>1</sup> Dr. Richard Majoor, Macquarie Equities, *Regulatory Certainty: Those who seek it get left behind*, February 18, 2016, [https://www.detecon.com/casa/casa/files/detecon\\_casa\\_event\\_2016\\_regulatory\\_certainty.pdf](https://www.detecon.com/casa/casa/files/detecon_casa_event_2016_regulatory_certainty.pdf).

**Figure 1: Market Capitalization of U.S. Investor-Owned Electric Utilities  
(in \$MM) as of December 31, 2016**

Company Name	Symbol	Market Cap.	% of Total	Company Name	Symbol	Market Cap.	% of Total
NextEra Energy, Inc.	NEE	55,346	8.39%	Pinnacle West Capital Corporation	PNW	8,694	1.32%
Duke Energy Corporation	DUK	53,480	8.10%	Alliant Energy Corporation	LNT	8,609	1.30%
Dominion Resources, Inc.	D	47,938	7.26%	Westar Energy, Inc.	WR	8,007	1.21%
Southern Company	SO	47,616	7.22%	NiSource Inc.	NI	7,136	1.08%
Exelon Corporation	EXC	32,828	4.98%	OGE Energy Corp.	OGE	6,680	1.01%
American Electric Power Company, Inc.	AEP	30,957	4.69%	MDU Resources Group, Inc.	MDU	5,619	0.85%
PG&E Corporation	PCG	30,446	4.61%	Vectren Corporation	VVC	4,318	0.65%
Sempra Energy	SRE	25,199	3.82%	Great Plains Energy Inc.	GXP	4,228	0.64%
Edison International	EIX	23,469	3.56%	IDACORP, Inc.	IDA	4,051	0.61%
PPL Corporation	PPL	23,090	3.50%	Portland General Electric Company	POR	3,853	0.58%
Consolidated Edison, Inc.	ED	22,436	3.40%	Hawaiian Electric Industries, Inc.	HE	3,580	0.54%
Public Service Enterprise Group Incorporated	PEG	22,159	3.36%	Black Hills Corporation	BKH	3,201	0.49%
Xcel Energy Inc.	XEL	20,714	3.14%	<b>ALLETE, Inc.</b>	<b>ALE</b>	<b>3,171</b>	<b>0.48%</b>
WEC Energy Group, Inc.	WEC	18,510	2.81%	NorthWestern Corporation	NWE	2,748	0.42%
DTE Energy Company	DTE	17,633	2.67%	PNM Resources, Inc.	PNM	2,735	0.41%
Eversource Energy	ES	17,552	2.66%	Avista Corporation	AVA	2,554	0.39%
FirstEnergy Corp.	FE	13,162	1.99%	MGE Energy, Inc.	MGEE	2,264	0.34%
Entergy Corporation	ETR	13,153	1.99%	El Paso Electric Company	EE	1,877	0.28%
Ameren Corporation	AEE	12,727	1.93%	Otter Tail Corporation	OTTR	1,584	0.24%
AVANGRID, Inc.	AGR	11,724	1.78%	Empire District Electric Company	EDE	1,502	0.23%
CMS Energy Corporation	CMS	11,579	1.75%	Unitil Corporation	UTL	634	0.10%
CenterPoint Energy, Inc.	CNP	10,612	1.61%				
SCANA Corporation	SCG	10,472	1.59%				
<b>Total Industry</b>						<b>659,845</b>	<b>100.00%</b>

Source: EEI Finance Department and S&P Global Market Intelligence.

Moreover, the major credit ratings agencies (i.e., Fitch Ratings, Moody's Investors Service, Standard and Poor's) take into consideration state regulatory environments when evaluating regulated utilities. In its January 2014 upgrade of ALLETE, Inc., Moody's Investors Service provided details regarding what could shift the rating downward:

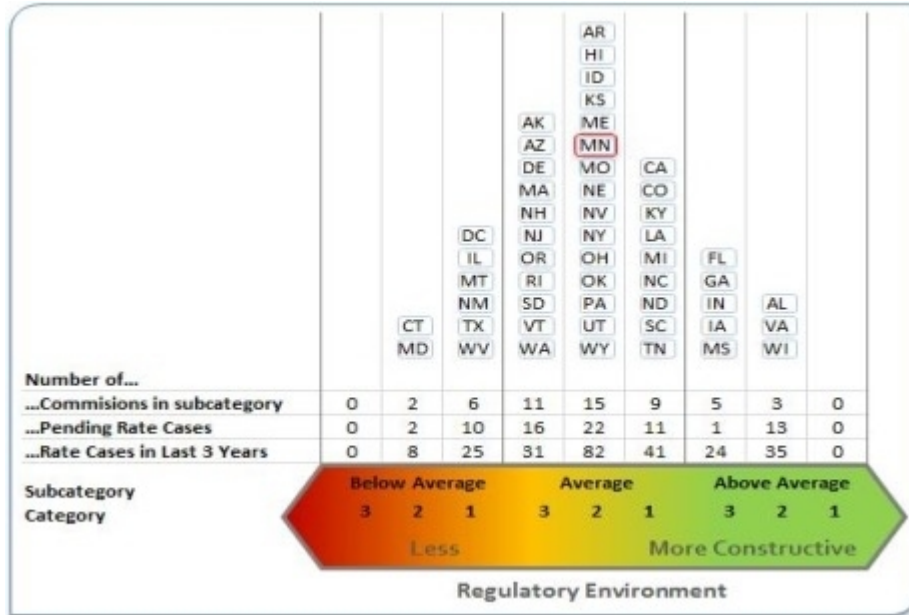
The ratings of ALLETE, Inc. could be lowered if there were a deterioration in the regulatory environment, which might include greater regulatory lag, uncertainty about the recovery of investments, further compression in rates (especially if accompanied by a rise in interest rates), or if there were a downward revision in our expectation of future financial metrics relative to our current view.<sup>2</sup>

The ND ITC allocation decision represents the kind of deterioration in the regulatory environment that Moody's Investors Service noted could shift ALLETE's ratings because it undermines the financial separation between the regulated and non-regulated subsidiaries. Further, some third-party organizations, such as Regulatory Research Associates ("RRA"), evaluate state commissions, taking into account several factors such as regulatory certainty and the results of recent regulatory findings. These evaluations are used by the financial community to determine the

<sup>2</sup> Moody's Investors Service, *Rating Action: Moody's upgrades ALLETE, Inc. and Superior Water, Light and Power Company to A3; outlooks stable*, January 30, 2014, [https://www.moodys.com/research/Moodys-upgrades-ALLETE-Inc-and-Superior-Water-Light-and-Power--PR\\_291688](https://www.moodys.com/research/Moodys-upgrades-ALLETE-Inc-and-Superior-Water-Light-and-Power--PR_291688).

attractiveness of investing in companies regulated by these commissions. Accordingly, these evaluations can have a negative impact on an electric company’s cost of capital. The MPUC currently ranks in the middle of the group, as shown in Figure 2, below. The ND ITC allocation decision, however, could change how analysts view the Commission, resulting in less confidence in all electric companies the Commission regulates.

**Figure 2: RRA State Utility Commission Rankings**



Source: S&P Global Market Intelligence / RRA, EEI Finance Department. Rankings as of May 2017.

For the reasons stated above, EEI encourages the Commission to reconsider its decision regarding the allocation of the benefits of the ND ITCs. Allocating ND ITC benefits—realized in part by non-regulated operations—to the regulated electric company creates a situation of regulatory uncertainty for investors that could have negative consequences for the creditworthiness of ALLETE, which could directly increase ALLETE’s cost of capital with potentially negative impacts on rates for electricity customers.

We appreciate the opportunity to provide comments regarding regulatory policy that is of importance to EEI members across the country.

Respectfully Submitted,



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