STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION

Katie Sieben	Chair
Joseph Sullivan	Vice-Chair
Valerie Means	Commissioner
Matt Schuerger	Commissioner
John Tuma	Commissioner

In the Matter of Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting from the COVID-19 Pandemic

DOCKET NO. E-015/M-20-814

COMMENTS OF THE OFFICE OF THE ATTORNEY GENERAL

INTRODUCTION

The Office of the Attorney General—Residential Utilities Division ("OAG") respectfully submits the following Comments in response to the November 4, 2020 petition of Minnesota Power ("Company") for approval to track and defer a revenue shortfall from two large industrial customers. Minnesota Power's current petition comes on the heels of its 2019 rate case, which the Company resolved in the spring and summer of 2020 as some of its large industrial customers were idling their operations amid the uncertainty surrounding the COVID-19 pandemic. Having just received a $36 million base-rate increase and committed not to seek another increase before November 2021, the Company is now trying to get a second bite at the apple by tracking a $32 million shortfall from two customers that it claims was entirely unforeseeable.

The Commission should reject Minnesota Power's request for at least four reasons. First, granting the Company's revenue-tracking proposal would undermine the deal it struck with ratepayers when it resolved its 2019 rate case and committed not to seek another base-rate increase until November 2021. Second, the proposal attempts to insulate the Company's investors from sales-variation risk that they are compensated for by the opportunity to share in the Company's profits. Third, cyclicality in large-customer load is not unusual but, in fact, is a business risk that Minnesota Power routinely encounters. Finally, the Company's attempt to focus on only two industrial customers, while ignoring all the others, does not establish that the revenue loss at issue has significantly impacted its financial condition. To the contrary, the Company's most recent earnings report shows that its profits in 2020 have been similar to, or even higher than, its pre-pandemic profits. For these reasons, the Commission should find that Minnesota Power's petition lacks good cause and should deny it.

BACKGROUND

I. MINNESOTA POWER'S LARGE INDUSTRIAL CUSTOMERS

Minnesota Power's load profile is characterized by a high concentration of large industrial customers, with industrial load making up more than 70 percent of the Company's retail energy sales.[1] These large customers consist primarily of taconite and graphic paper producers.[2] Most of these industrial customers take service under Minnesota Power's "Large Power Service" rate schedule.[3]

Historically, northern Minnesota's mining and forest-products industries have been sensitive to trends in the broader economy.[4] For example, as a result of the Great Recession of 2007–2009, the Company's industrial customers idled operations for a significant portion of 2009, resulting in a roughly 30 percent drop in retail energy sales for that year.[5] Moreover, even in a good overall economy, these customers face challenges in their respective markets due to

[1] Docket No. E-015/GR-19-442, Direct Testimony of Frederickson L. Frederickson at 3 (Nov. 1, 2019) (hereinafter "Frederickson Large Power Testimony").
[2] Frederickson Large Power Testimony at 3.
[3] *See id.* at 2–4 (discussing Large Power customer class); Minnesota Power ("MP") Electric Rate Book, vol. I, section V, pages 24.0–.6 (Large Power Service rate schedules).
[4] *See* Docket No. E-015/GR-19-442, Direct Testimony of Frank L. Frederickson at 11 (Nov. 1, 2019) (hereinafter "Frederickson Overview Testimony") (stating that "these industries [are] subject to normal economic cycles of growth and recession").
[5] Frederickson Overview Testimony at 16.

global trade, technology evolution, and changing consumer preferences.[6] This indirect exposure to industrial markets increases Minnesota Power's overall business risk, which the Company manages "through a combination of prudent business management, cost-cutting, off-system energy sales, and additional efforts to meet customer needs."[7]

An important tool that Minnesota Power uses to manage the sales risk from its large customers is electric service agreements, or "ESAs." An ESA is a long-term contract between Minnesota Power and a Large Power customer that requires the customer to pay for a minimum level of electric service whether or not it is operating.[8] An ESA also obligates the customer to periodically submit "demand nominations" stating its intended electric demand in the forthcoming three- or four-month period, with one or two months' advance notice.[9] According to Minnesota Power, ESAs with its Large Power customers "currently provide a guaranteed approximately $55 million in long-term revenue certainty that helps the utility to effectively plan for and make long term capital investments."[10]

The following sections provide additional background on the Company's Large Power customers and the economic cycles that impact their operations.

A. The Taconite Industry

Taconite is an iron ore that has been mined on Minnesota's Iron Range since the 1950s.[11] The ore is processed into pellets using large quantities of energy before being shipped to steel

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[6] *Id.* at 11; *see also* Frederickson Large Power Testimony at 7 (stating that "Minnesota Power's industrial customers face marketplace challenges, even in a good economy").
[7] Frederickson Overview Testimony at 17.
[8] Frederickson Large Power Testimony at 17 ("These nominations must be equal to or above the Minimum Service Requirement set forth in each customer's ESA.")
[9] Docket No. E-015/M-20-814, Petition for Approval to Track and Defer Lost Sales at 2 (Nov. 4, 2020) (hereinafter "Revenue-Tracking Petition").
[10] Frederickson Large Power Testimony at 17–18.
[11] *See generally* IRON RANGE RES. & REHAB. BD., CELEBRATING 75 YEARS ON THE IRON RANGE 19–23 (2016), *available at* https://perma.cc/EJ8Z-E6AL.

mills via the Great Lakes. Minnesota Power provides electric service to all six of Minnesota's currently operating taconite plants:

Figure 1: Minnesota Taconite Plants

Name	Location	Owner
Hibbing Taconite	Hibbing	Cleveland-Cliffs, U.S. Steel
Keetac	Keewatin	U.S. Steel
Minntac	Mountain Iron	U.S. Steel
Minorca	Virginia	Cleveland-Cliffs
Northshore Mining	Babbit, Silver Bay	Cleveland-Cliffs
United Taconite	Eveleth	Cleveland-Cliffs

The history of the taconite industry has been marked by alternating periods of growth and recession, often following the cycles of the broader economy. Statewide production of taconite reached its historic peak in 1979, with more than 50 million tons produced that year.[12] This peak was immediately followed by the economic upheaval of the early 1980s, when a global recession coincided with major changes in the domestic steel industry.[13] Taconite production tumbled to 23 million tons by 1982 and struggled to recover for the rest of the decade. In 1990, annual production surpassed 40 million tons for the first time since 1981. It hovered at, or slightly above, this level for the rest of the decade.

The bursting of the dot-com bubble in 2000–2001 ushered in another economy-wide recession that, in the taconite industry, manifested as a 30 percent production drop for 2001. More than half of this drop was caused by the permanent closure of the Erie pellet plant near

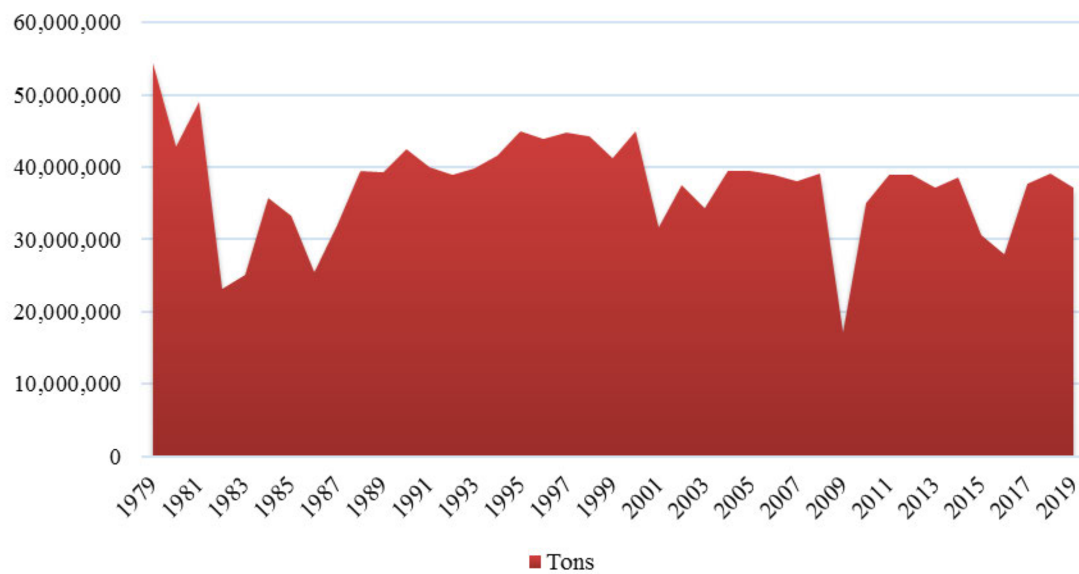
[12] *See* MP Resp. to OAG IR No. 010 attach. (Dec. 20, 2020) (listing taconite production by mine, 1950–2019) (Attachment A to these Comments); *see also* IRON RANGE RES. & REHAB. BD., *supra* note 11, at 19 ("By 1979, the Range would send more than 50 million tons of pellets down the Great Lakes to the blast furnaces of the nation's integrated steel industry.").

[13] *See* IRON RANGE RES. & REHAB. BD., *supra* note 11, at 34–35 (discussing steel industry changes in the 1980s).

Hoyt Lakes.[14] By 2004, taconite production was back up to nearly 40 million tons annually. It remained at this level until 2009, when the Great Recession caused it to plummet to 17 million tons, its lowest level since 1963. Over the next two years, production climbed back to just below the 40 million level, where it stayed through 2014. In 2015–2016, steel dumping on the global market caused taconite production to decline by nearly 28 percent.[15] It rebounded in 2017 and closed out the decade above 37 million tons.

Figure 2 depicts how Minnesota's taconite production has varied dramatically over the past four decades:

Figure 2: Minnesota Taconite Production 1979-2019

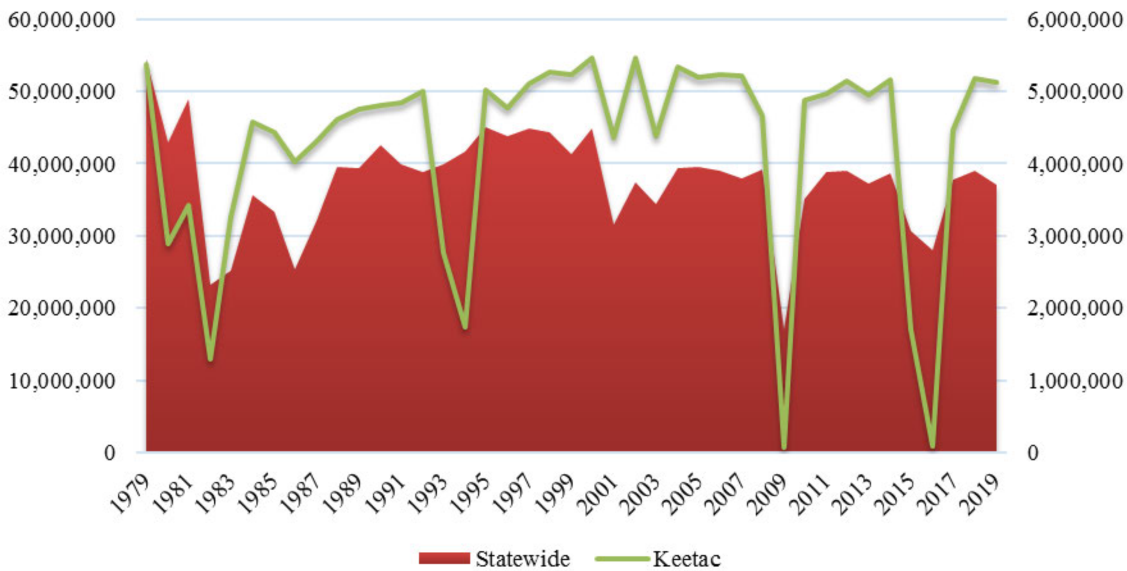


Of all the Iron Range plants, perhaps the most sensitive to market pressures is Keetac, the smaller of U.S. Steel's two wholly owned plants. Keetac is regarded as a "swing" facility because it is generally the among first to shut down when market conditions deteriorate and the

[14] *See* MP Resp. to OAG IR No. 010, *supra* note 12, attach.
[15] *See* Iron Range Res. & Rehab. Bd., *supra* note 11, at 95–99; Docket No. E-015/GR-16-664, Direct Testimony of Michael A. Perala at 14–16 (Nov. 2, 2016) (discussing global steel market's impact on taconite producers).

last to come back when conditions improve.[16] This means that focusing solely on Keetac would tend to give a gloomier picture of Minnesota's taconite industry at any given time. Figure 3 compares Keetac's historic production to the taconite industry overall:

Figure 3: Taconite Production, Keetac vs. Industry



This graph reflects at least three instances in the last 30 years where Keetac's production has varied substantially from the industry as a whole. On those occasions, Minnesota Power responded to the sales drops at Keetac by filing for rate increases, revising its sales forecasts, or both. Minnesota Power has consistently overestimated the harm that these downturns will cause to its business, because it has failed to accurately predict when this "swingy" facility will ramp up production.

In October 1993, Keetac's then-owner, National Steel, idled the plant during a labor dispute.[17] Minnesota Power filed a rate case in January 1994 that reflected lower revenue from

[16] *See* Lee Bloomquist, *Another Iron Range Taconite Plant Scheduled to Be Idled*, BUSINESSNORTH, Apr. 16, 2020, https://perma.cc/B95X-G3EN (reporting Keetac's imminent idling and noting its status as a "swing" plant).
[17] *In re Petition for Approval of an Amendment to the Electric Service Agreement of National Steel Company and National Steel Pellet Company*, Docket No. E-015/M-94-713, Petition at 1 (Aug. 1, 1994).

Keetac.[18] The record in the rate case closed at the end of June 1994. That same month, National Steel resumed labor negotiations, and in July, it agreed to an amended ESA with Minnesota Power.[19] Keetac's return to production required the Commission to reopen the rate-case record and reflect additional sales revenues in the test year.[20]

In 2009, taconite production was down industry-wide as a result of the Great Recession. Even so, Keetac's output dropped by significantly more than other producers, falling to 75,000 tons from 4.7 *million* tons the year before—a 98 percent decrease.[21] Minnesota Power filed a rate case in November 2009, citing "the dramatic downturn" in the Company's industrial class revenues.[22] But in April 2010, the Company revised its initial gloomy sales forecast to reflect improved economic indicators, as well as commitments by several taconite producers, including Keetac, to operate at higher production levels.[23]

Finally, in May 2015, Keetac again idled operations, this time amid foreign steel dumping. The plant remained shut down throughout 2016, even as other taconite producers resumed operations.[24] Minnesota Power filed a rate case in November 2016, in part because Keetac was idle and was expected to remain so in 2017.[25] In December 2016, however, U.S. Steel announced its intention to restart Keetac, which required Minnesota Power to, once again, revise its test-year sales forecast.[26] These examples show that, while Minnesota's taconite

[18] *See* Docket No. E-015/GR-94-001, Findings of Fact, Conclusions of Law, and Order at 7 (Nov. 22, 1994).
[19] Docket No. E-015/M-94-713, Petition at 1–2.
[20] *See* Docket No. E-015/GR-94-001, Findings of Fact, Conclusions of Law, and Order at 7–8.
[21] *See* MP Resp. to OAG IR No. 010, *supra* note 12, attach.
[22] Docket No. E-015/GR-09-1151, Direct Testimony of David J. McMillan at 5 (Nov. 2, 2009).
[23] Docket No. E-015/GR-09-1151, Rebuttal Testimony of David J. McMillan at 14–15 (Apr. 29, 2010); *see also* Direct Testimony of Scott H. Coleman at 7 (Mar. 31, 2010) (testifying that Keetac and Minntac would be at "slightly less than full production for April and May" and "at the full production . . . level for June and July").
[24] Docket No. E-015/GR-16-664, Direct Testimony of David J. McMillan at 10 (Nov. 2, 2016).
[25] MP Resp. to OAG IR No. 010, *supra* note 12, at 3 (citing Docket No. E-015/GR-16-664, Findings of Fact, Conclusions, and Order at 1, 50 (Mar. 12, 2018)).
[26] *Id.*

production has varied considerably over the past 40 years, the Company has consistently overestimated the harm that it would endure from temporary production drops at Keetac.

B. The Paper and Pulp Industry

Minnesota Power's Large Power customer class includes four paper and pulp mills:

Figure 4: Minnesota Power's Paper & Pulp Customers

Name	Location	Owner
Boise	International Falls	Packaging Corporation of America
Blandin	Grand Rapids	UPM-Kymmene Corp.
Verso	Duluth	Verso Corp.
Sappi	Cloquet	Sappi Ltd.

These customers produce a variety of pulps and graphic paper grades that are sold on the North American and global markets.[27] The Company serves approximately 53 percent of the mills' energy demand, with customers' on-site generation supplying the remainder.[28]

According to Minnesota Power, demand for graphic paper has been in a "secular decline" since 2007, following the advent of enhanced mobile devices like the iPhone.[29] This means that, unlike the demand for taconite pellets, which tends to follow the ups and downs in the broader economy, graphic-paper demand has been on a steady decline for more than a decade. As a result, "[a]pproximately half the market demand for graphic paper has evaporated since 2007 and is not expected to return."[30] This trend has negatively impacted the Company's paper- and pulp-producing customers. Although Minnesota's paper mills were in good shape when the initial decline began, by 2012, their competitive position had weakened, with higher-cost mills having

[27] *Id.* at 34.
[28] *Id.*
[29] *Id.*
[30] *Id.*

closed elsewhere.[31] As a result, the next five years saw the permanent closure of three Minnesota paper machines—two at Boise in 2013, and one at Blandin in 2017.[32]

Verso's Duluth mill has also experienced the impact of declining paper demand, which has manifested through changes in its ownership, multiple bankruptcies, and renegotiated service agreements. In September 2011, the mill's then-owner, NewPage Corp., filed for Chapter 11 bankruptcy protection.[33] This led to a renegotiation of NewPage's ESA in 2012. Among other changes, the amended ESA gave NewPage greater ability to avoid demand charges in the event of a temporary or permanent shutdown of the mill.[34] Verso acquired the mill in January 2015 and filed for Chapter 11 bankruptcy a year later. The result was another amended ESA, which retained the 2012 modifications and reduced Verso's energy costs by lowering its incremental-production-service threshold.[35] The Commission approved this amendment in February 2019.[36]

II. MINNESOTA POWER FILES A RATE CASE IN NOVEMBER 2019 AND RESOLVES IT THE NEXT SUMMER, OBTAINING A $36 MILLION BASE-RATE INCREASE AS SEVERAL OF ITS LARGE CUSTOMERS IDLE.

On November 1, 2019, Minnesota Power filed a rate case seeking a $66 million rate increase based on a 2020 test year.[37] According to the Company, the primary drivers of the case were "declining sales coupled with cost inflation."[38]

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[31] *Id.* at 35.
[32] *Id.*
[33] *In the Matter of Minnesota Power's Petition for Approval of an Amendment to an Electric Service Agreement with NewPage Wisconsin System, Inc.*, Docket No. E-015/M-12-1025, Petition for Approval of an Amendment to ESA at 2 (Sept. 25, 2012).
[34] *Id.* at 7–8.
[35] *See In the Matter of Minnesota Power's Petition for Approval of an Amendment to the Electric Service Agreement Between Verso Minnesota Wisconsin LLC and Minnesota Power*, Docket No. E-015/M-18-603, Petition at 7 (Sept. 21, 2018). The incremental production service, or "IPS," threshold marks the level of usage above which a Large Power customer receives a discounted rate for energy consumed.
[36] Docket No. E-015/M-18-603, Order Approving Amendment to Electric Service Agreement (Feb. 12, 2019).
[37] *See* Docket No. E-015/GR-19-442, Notice of Change in Rates (Nov. 1, 2019).
[38] Frederickson Overview Testimony at 20.

On December 23, 2019, the Commission accepted Minnesota Power's rate-case filing and referred it to the Office of Administrative Hearings for contested-case proceedings.[39]

In January 2020, the first cases of novel coronavirus disease 2019 ("COVID-19") were confirmed in the United States.[40]

On March 13, Minnesota Governor Tim Walz declared a peacetime emergency to protect residents from the COVID-19 pandemic.[41]

Between April 14 and April 21, four of Minnesota Power's large industrial customers announced the temporary or indefinite idling of their facilities: Northshore Mining, Keetac, Hibbing Taconite, and Blandin.[42]

On April 23, citing the uncertainties associated with COVID-19, Minnesota Power filed a petition to resolve and withdraw its rate case.[43] The centerpiece of the Company's petition was a proposal to remove a ratepayer credit for asset-based wholesale margins ("margin credit") from base rates.[44] The effect of this proposal would be to increase base rates by $35.8 million, an increase that would be partially offset by an estimated $10 million in remaining margin credit to be returned through the Company's fuel-clause rider.[45]

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[39] *See* Docket No. E-015/GR-19-442, Order Accepting Filing and Suspending Rates; Notice of and Order for Hearing (Dec. 23, 2019).
[40] *See* Press Release, Ctrs. for Disease Control & Prev., First Travel-related Case of 2019 Novel Coronavirus Detected in United States (Jan. 21, 2020), *available at* https://perma.cc/R62P-9VBX.
[41] Minn. Exec. Order No. 20-01 (Mar. 13, 2020).
[42] *See* Jimmy Lovrien, *Cliffs Will Idle Northshore Mining, Tilden Mine Until Late Summer*, DULUTH NEWS TRIBUNE, Apr. 14, 2020; Jimmy Lovrien, *U.S. Steel Will Idle Keetac, Lay Off 375 Employees*, DULUTH NEWS TRIBUNE, Apr. 17, 2020; Jimmy Lovrien, *ArcelorMittal Will Idle Hibbing Taconite*, DULUTH NEWS TRIBUNE, Apr. 21, 2020; Jimmy Lovrien, *Blandin Paper Mill in Grand Rapids Will Temporarily Shut Down*, DULUTH NEWS TRIBUNE, Apr. 21, 2020.
[43] *See* Docket No. E-015/M-20-429, Petition for Approval to Move Asset Based Wholesale Sales Credits to the Fuel Adjustment Clause and Resolve Rate Case (Apr. 23, 2020) (hereinafter "Rate-Case Resolution Petition").
[44] Margin credits represent the revenue that Minnesota Power earns from selling the output of generation assets that are not needed to serve retail load at a particular point in time. These revenues are credited to ratepayers since they pay for the rate-base assets that generate them.
[45] *See* Rate-Case Resolution Petition, attach. A. The fuel-clause rider is an automatic rate-adjustment mechanism through which the Company recovers its fuel and purchased-power costs.

On June 2, Sappi announced temporary layoffs at its Cloquet paper mill.[46]

On June 9, Verso announced that it would begin indefinitely idling its Duluth mill by the end of the month.[47]

On June 30, the Commission granted the Company's rate-case-resolution petition without modifying its core proposals.

This resolution brought many benefits to Minnesota Power. Amid the uncertainty of the pandemic, the Company was able to address a key driver of its rate case—declining wholesale margins—and, at the same time, could boast that final rates would be lower than interim rates and that customers would get a *complete refund* for the first four months of 2020.[48] The Company locked in a $35.8 million increase to base rates, or more than half of its initial request, while avoiding the time, expense, and downside risk of continuing to litigate the case.[49] And although the increase was tempered by the remaining margin credit, the fuel-clause rider's true-up feature meant that ratepayers would bear the risk of further decreases in wholesale margins.[50] Finally, the resolution expressly allowed Minnesota Power to retain any revenues from wholesale energy sales it makes due to lost industrial load.[51] Under this arrangement, whenever sales to Large Power customers drop below the forecast approved in the 2016 rate case, the Company keeps the revenues from replacement sales it makes on the MISO market.

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[46] Jimmy Lovrien, *Faced with Less Demand, Sappi Temporarily Laying Off Employees*, DULUTH NEWS TRIBUNE, June 2, 2020.

[47] *Verso to Indefinitely Idle Duluth Paper Mill*, DULUTH NEWS TRIBUNE, June 9, 2020.

[48] The resolution provided for a final base-rate increase slightly below the interim level, as well as a refund of the entire interim rate increase for January–April 2020, to reflect the revenue loss from a large market contract. In a press release, the Company declared that the resolution of its rate case "would reduce customers' monthly bills and provide refunds" and "will provide some much-needed relief for our customers in these difficult times." Press Release, ALLETE, Inc., Minnesota Power Proposes Plan to Resolve Rate Request in Response to Economic Challenges of COVID-19 (Apr. 23, 2020).

[49] *See* Rate-Case Resolution Petition, attach. A.

[50] *See* Docket No. E-015/M-20-429, OAG Comments at 14–16 (May 11, 2020).

[51] Rate-Case Resolution Petition at 10.

For Minnesota Power's ratepayers, the benefit of the resolution was much more modest. It consisted primarily of the Company's commitment that it would not file another rate case before November 1, 2021, except in the limited circumstance where one or more Large Power customers idles or shuts down combined load of at least 50 megawatts ("MW") for at least three months.[52] In that event, Minnesota Power could seek a rate increase as early as March 2021, upon 90 days' notice. These "stay out" commitments provided ratepayers with some certainty that another base-rate increase would not come on the heels of the current one.

III. MINNESOTA POWER POSITIONS ITSELF TO RECOVER "LOST" LARGE-POWER REVENUES FROM 2020, DESPITE RESOLVING ITS RATE CASE AND COMMITTING TO DELAY FURTHER INCREASES.

Over the summer of 2020, the economy improved, and by August, all taconite producers except Keetac had restarted or ramped up production.[53] Among paper and pulp producers, only Verso continued to idle.[54]

On August 1, most of Minnesota Power's Large Power customers submitted their demand nominations for the rest of 2020.[55] The new nominations reflected full production levels at all facilities except Keetac and Verso.[56]

In an October 30 earnings call, U.S. Steel stated that Keetac could be restarted by the end of the year.[57]

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[52] *See* Rate-Case Resolution Petition at 17. The rate-case resolution petition refers to energy-intensive trade-exposed, or "EITE," load, rather than "Large Power" load, but for purposes of the current case, these terms are essentially synonymous.
[53] Jimmy Lovrien, *Keetac Sits Idle, Even as Other Mines Restart, Steel Industry Recovers*, DULUTH NEWS TRIBUNE, Oct. 6, 2020.
[54] Peter Passi, *Verso Continues to Explore Options for Idled Duluth Paper Mill*, DULUTH NEWS TRIBUNE, Aug. 7, 2020.
[55] *See* Jimmy Lovrien, *Idled Plants, Commercial Slowdown Expected to Continue Affecting ALLETE, Minnesota Power Earnings*, DULUTH NEWS TRIBUNE, Aug. 6, 2020.
[56] *Id.*
[57] Jimmy Lovrien, *U.S. Steel Could Restart Keetac by End of Year*, DULUTH NEWS TRIBUNE, Oct. 31, 2020.

On November 4, Minnesota Power filed a petition for authority to track and defer "lost" sales revenues from Keetac and Verso for later recovery. Both Keetac and Verso were already idled, or had announced plans to idle, when the Commission approved the Company's rate-case resolution.

On November 6, U.S. Steel confirmed that Keetac would restart in December.[58]

On November 9, Minnesota Power's parent company, ALLETE Inc., held its third quarter earnings call. ALLETE reported a third-quarter profit of $42.4 million for its regulated operations, which represented a significant increase compared to the third quarter of 2019.[59]

In December 2020, several of the Company's Large Power customers submitted their demand nominations for the first months of 2021. With the exception of Verso, these customers nominated demand levels consistent with full production.

IV. The Company's Revenue-Tracking Proposal

In its November 4 petition, Minnesota Power estimates that the idling of Keetac and Verso will result in "a reduction in nonfuel revenue (excluding cost recovery riders) of approximately $32 million annually or approximately 7 percent of Minnesota Power's non-fuel retail revenue."[60] As a result, the Company claims that it "will likely need to file a general rate case as early as March 1, 2021."[61] The petition does not, however, address the impact of Keetac's December 2020 return to production.

To avert the alleged need to file a rate case in early 2021, Minnesota Power requests that it be allowed to track "lost" revenue resulting from Keetac and Verso's decisions to idle, record

[58] Jimmy Lovrien, *U.S. Steel Will Restart Keetac Next Month*, Duluth News Tribune, Nov. 6, 2020.

[59] *See* ALLETE, Inc., Q3 2020 Earnings Conference Call Presentation at 3 & n.1 (Nov. 9, 2020) (showing $42.4 million in regulated earnings for Q3 2020 compared to $32.4 million for Q3 2019, with some of the difference being due to timing), *available at* https://perma.cc/5SZ9-FTH4.

[60] Revenue-Tracking Petition at 15.

[61] *Id.* at 17.

it as a regulatory asset, and seek recovery in a future proceeding.[62] The revenue shortfall would be quantified by comparing the two customers' "non-fuel 2020 pre-COVID sales projections" as reflected in the Company's November 2019 rate-case filing to their actual nonfuel sales revenues in each month of the tracking period.[63] The tracking period would begin on September 1, 2020, and extend until Minnesota Power's next rate case or until February 1, 2022, whichever comes first.[64]

Minnesota Power also proposes to offset the regulatory asset with the net revenue from any market sales it is able to make as a result of Keetac and Verso's idling.[65] This offsetting revenue is the same "sales due to loss of load" revenue that Minnesota Power was allowed to retain under the resolution of its rate case. The Company now proposes to credit this revenue to ratepayers, though it estimates the revenue to be "much lower than what Verso and Keetac would have paid," perhaps $1.6 million annually.[66]

Minnesota Power frames its request as satisfying the criteria for deferred accounting—a regulatory tool used to address extraordinary costs incurred between rate cases. The lost revenues at issue in this case, however, are not "costs." The Company therefore states that it is also open to other tracking options, such as a sales true-up or revenue decoupling.[67]

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[62] *Id.*
[63] *Id.*
[64] *Id.* at 17, 25.
[65] *Id.* at 18.
[66] *See id.* at 19 tbl.1.
[67] *Id.* at 25.

ANALYSIS

I. THE LEGAL STANDARD

Minnesota Power's request to track lost revenues and record them as a regulatory asset would require the Commission to make an exception to the uniform system of accounts.[68] The Commission may grant exceptions to the uniform system of accounts for "good cause shown."[69] Factors that the Commission typically considers in determining whether good cause exists for deferred accounting include whether the costs at issue are "unforeseen, unusual, and large enough to have a significant impact on the utility's financial condition."[70]

II. THE COMPANY HAS NOT ESTABLISHED GOOD CAUSE TO TRACK "LOST" REVENUES FROM KEETAC AND VERSO.

The Commission should reject Minnesota Power's request to track the revenue shortfall from Keetac and Verso because the Company has not established good cause for its request. There are four main reasons for this. First, the Company's proposal undercuts the resolution of its 2019 rate case by circumventing the resolution's stay-out provisions and attempting to recover revenues that were part of the test year. Second, the proposal shifts risks onto ratepayers that properly belong to the Company's shareholders, contrary to established ratemaking principles. Third, variation in Large Power revenues in response to economic forces is a routine part of Minnesota Power's business. And finally, the Company has not established that the lost revenues have had, or will have, a significant impact on its financial condition.

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68 *See id.* at 19–20 (acknowledging that it is seeking exception to system of accounts).
69 Minn. R. 7825.0300, subp. 4.
70 *In the Matter of Xcel Energy's Petition for Approval of Electric Vehicle Pilot Programs*, Docket No. E-002/M-18-643, Order Approving Pilots with Modifications, Authorizing Deferred Accounting, and Setting Reporting Requirements at 18 (July 17, 2019).

A. The Company's Revenue-Tracking Proposal Would Undermine the Resolution of Its 2019 Rate Case.

The first reason that Minnesota Power lacks good cause to track "lost" Large Power revenue for later recovery is that it would undermine the Company's recent rate-case resolution. The Company received substantial benefits by resolving its rate case: It locked in a $36 million, or 5.75 percent, increase to base rates and avoided the uncertainty of proceeding with the case during a pandemic. In exchange, the Company withdrew the remainder of its request, thereby giving up the right to have any other test-year costs or revenue reductions reflected in base rates. It also committed not to seek another increase to base rates before November 2021, leaving itself a significant loophole: If one or more Large Power customers were to shut down or idle at least 50 MW of load or for at least three months, the Company could file a new rate case as early as March 2021. As the Company explained, "this exception is necessary in the event Minnesota Power has no choice but to seek rate relief due to extenuating circumstances beyond its control."[71]

The Company's revenue-tracking request undermines this rate-case resolution in two ways.

First, the resolution already provides a mechanism to address a substantial loss of Large Power load. Specifically, it allows Minnesota Power to file a rate case as early as March 2021 in the event of a loss of Large Power load of 50 MW or greater that lasts at least three months. This would require the Commission to consider *all* of Minnesota Power's costs and revenues, rather than revenues from just two customers. But the Company does not seek to avail itself of this remedy. Instead, it attempts to employ a revenue-tracking mechanism for two customers that was not mentioned in the resolution petition or in discussions of the petition. It is unlikely that

[71] Rate-Case Resolution Petition at 17.

other stakeholders or the Commission would have accepted a rate-case resolution that included such a tracking mechanism. By failing to mention it, the Company avoided a dispute that could have hindered a rate-case resolution that it badly wanted. The Commission should not find good cause to track lost Large Power revenue when the Company already has a mechanism to address just such "extenuating circumstances."

Minnesota Power's revenue-tracking proposal undermines the rate-case resolution in a second way: It seeks to recover revenue reductions that occurred *during the test year* of a rate case that the Company resolved and withdrew. If the Company had proceeded with the case, it could have provided an updated sales forecast reflecting lower revenues from Keetac and Verso in 2020, as well as any other changes from residential customers or other taconite or paper producers. But by withdrawing the case, it gave up the right to have these revenue changes reflected in base rates and prevented the Commission from scrutinizing other components of its revenue requirement. In seeking to track lost revenue for 2020, Minnesota Power is positioning itself to recover a *single test-year item* that benefits the Company, without giving the Commission an opportunity to examine potential offsetting revenue increases or cost decreases.[72] Granting the Company's petition would therefore constitute textbook single-issue ratemaking. It would also raise concerns of retroactive ratemaking, since the Company has already litigated and resolved its 2020 revenue requirement.

Because Minnesota Power's revenue-tracking proposal attempts to relitigate a single component of the 2019 rate case's revenue requirement and would undermine the bargain the

[72] *Cf. In the Matter of the Petition of the Minnesota Rate Regulated Electric and Gas Utilities for Authorization to Track Expenses Resulting from the Effects of the COVID-19 and Record and Defer Such Expenses into a Regulatory Asset*, Order Adopting Methodology and Setting Additional Requirements at 4 (May 22, 2020) (ordering utilities to track savings and reduced expenses in addition to cost increases).

Company struck to resolve the case, the Commission should find that the proposal lacks good cause and deny it.

B. The Company's Revenue-Tracking Proposal Would Insulate Shareholders from a Risk They Are Paid to Bear and Is Without Precedent in Minnesota Utility Regulation.

The second reason that Minnesota Power's proposal lacks good cause is that it unfairly shifts shareholder risk to ratepayers. Under traditional rate regulation, a utility is not guaranteed to recover a specific amount of revenue. Instead, the Commission sets rates that are designed to give a utility's shareholders a reasonable opportunity to earn a fair rate of return, based on forecasted sales. Under this arrangement, "the utility and ratepayers both bear the risk that sales will differ from forecast."[73] "[W]hen ratepayers buy more energy than forecast, they pay higher bills than expected and the utility receives revenues exceeding its costs. Conversely, when ratepayers buy less energy than forecast, they pay lower bills than expected and the utility receives revenues less than its costs."[74] The risk that ratepayers will buy less energy than forecasted is a risk that utility shareholders are compensated for bearing by having an opportunity to earn a regulated rate of return on their investment. If a utility's revenues were guaranteed, there would be no risk and thus no need to compensate shareholders.

There are limited exceptions to this traditional arrangement. One exception is revenue decoupling, a rate-design mechanism intended to reduce a utility's disincentive to promote energy conservation.[75] Another exception is a sales true-up, a revenue-adjustment mechanism

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[73] *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota*, Docket No. G-011/GR-15-736, Findings of Fact, Conclusions, and Order at 40 (Oct. 31, 2016).
[74] *Id.*
[75] *See* Minn. Stat. § 216B.2412 (authorizing decoupling pilot programs and requiring Commission to establish decoupling criteria by order).

that the Commission has allowed utilities to employ in multiyear rate plans.[76] Minnesota Power likens its proposal to these mechanisms.[77] Unlike these established mechanisms, however, the Company's proposed revenue tracker would apply retroactively, meaning that it would go into effect *after* the Company knows whether it "wins" or "loses." It also would shift the entire risk of sales variations onto ratepayers, and could be used to shift a revenue shortfall attributable two customers—Keetac and Verso—onto other classes. For these reasons, and as further explained below, the Commission should reject Minnesota Power's proposal.

Both revenue decoupling and sales true-ups are ordinarily approved in a rate case, and applied prospectively. But Minnesota Power's revenue-tracking proposal is procedurally backward. Rather than seeking to implement decoupling or sales true-ups prospectively, Minnesota Power proposed a backward-looking revenue tracker only after it became clear that the Company would be experiencing a specific revenue loss. If Minnesota Power had proposed revenue decoupling in an earlier proceeding, it may have obtained the relief it is now seeking. But the Company has made a conscious choice not to propose decoupling.[78] Much like its decision to resolve the 2019 rate case, Minnesota Power's decision not to implement revenue decoupling was a decision it knowingly and voluntarily made. The Commission should not now allow the Company to implement a one-way true-up that imposes costs ratepayers after the fact, and preserves all potential future benefits for its shareholders.

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[76] *See* Minn. Stat. § 216B.16, subd. 19 (multiyear rate plan statute); *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-15-826, Findings of Fact, Conclusions, and Order (June 12, 2017) (authorizing multiyear rate plan that included sales true-ups).
[77] *See* Revenue-Tracking Petition at 20.
[78] *See In the Matter of a Commission Investigation into the Establishment of Criteria and Standards for the Decoupling of Energy Sales from Revenues*, Docket No. E,G-999/CI-08-132, MP Compliance Filing (June 1, 2010) (notifying Commission that Company did not intend to implement revenue decoupling).

Beyond this procedural irregularity, Minnesota Power's revenue-tracking proposal also lacks crucial elements and ratepayer protections of decoupling and sales true-up mechanisms. Both decoupling and sales true-ups operate in two steps: First, the revenues generated by a *customer class* over the preceding year are compared to the class's revenue requirement. Second, the class's volumetric rate is adjusted to return any excess revenue to, or recover any shortfall from, that class over the following year. Thus, two fundamental elements of these mechanisms are that they (1) are symmetrical and (2) operate on a class-by-class basis. They are symmetrical because they can yield either surcharges or refunds depending on a class's actual revenues. And they operate on a class-by-class basis because they true up revenues for an entire class and apply the resulting surcharge or refund to that class.

Unlike these mechanisms, Minnesota Power's revenue-tracking proposal is asymmetrical because it could only result in surcharges: ratepayers would receive no refunds if revenues are higher than forecasted. Moreover, unlike decoupling or sales true-ups, the Company's proposal would examine the revenues of two customers in isolation. In other words, even if revenues from the Large Power class as a whole are at or above forecasted levels, Minnesota Power would still be allowed to surcharge ratepayers if Keetac and Verso's revenues by themselves are lower than forecasted. This narrow focus on two customers is unreasonable, particularly in light of Keetac's history as a swing producer. Finally, sales true-ups and decoupling apply surcharges or refunds to the class that caused the shortfall or excess. Minnesota Power, however, has not said which classes it intends to surcharge for Keetac and Verso's revenue shortfall. Surcharging other classes for a shortfall caused by Large Power customers would be unreasonable.

Finally, the Commission has established specific criteria to ensure that decoupling pilot programs do not adversely impact ratepayers. These criteria illustrate that Minnesota Power's proposal lacks the policy benefits and ratepayer protections that the Commission requires in exchange for eliminating a utility's downward sales risk.

Decoupling program requirements include, among others:

- A utility must show how its proposed decoupling mechanism adheres to the guiding statute and how it will further the state policy of increased conservation investment;

- A utility must detail how the proposed mechanism will impact its cost of capital;

- A utility must identify the rate classes to which decoupling applies and provide a rationale for including or excluding each class;

- A utility must provide precise details on the mechanics of the proposed mechanism, including how rate adjustments will be calculated, whether a cap will be used to mitigate the risk of rate shock (and a justification if no cap is provided for), what portion of the customer's bill will be impacted by the true-up, and proof that the mechanism will not result in double recovery when combined with existing riders or financial incentives; and

- A utility must propose decoupling in a rate case unless it files the proposal within one year of the final order in a rate case and provides both updated sales forecasts and a detailed evaluation of how decoupling will impact its cost of capital.[79]

Minnesota Power's revenue-tracking proposal would meet almost none of these criteria if proposed as a decoupling pilot program. First, the Company has not explained how its proposal would encourage conservation. In fact, if the proposal is implemented, it would leave the Company with an incentive to maximize its energy sales, since the Company would be permitted to retain all excess revenues. Second, Minnesota Power has provided no information about how the proposal will impact its cost of capital, and specifically, whether and how much it would *lower* the Company's cost of capital due to the decreased sales risk.

Third, the Company has not stated which rate classes will be charged for the lost sales, much less provided a rationale for this decision. Similarly, the Company has not provided any

[79] Docket No. E,G-999/CI-08-132, Order Establishing Criteria and Standards to Be Utilized in Pilot Proposals for Revenue Decoupling at 7–9 (June 19, 2009).

detail on the mechanics of cost recovery, the impact on specific rate classes, or potential double recovery due to the interplay with other riders or rate mechanisms. Finally, as already discussed, the Company has followed an irregular procedure in proposing a sales true-up outside a rate case, and has not met the requirements for proposing a decoupling proposal outside a rate case, such as providing updated sales forecasts and a detailed evaluation of how its cost of capital would be impacted by the proposal.

Sales variations are a risk that utilities are expected to manage between rate cases—and, as the next section will show, are a risk that Minnesota Power routinely manages for its Large Power customers. The Company's revenue-tracking proposal seeks to undo a risk that its shareholders *already took* and were well compensated for bearing, and the proposal has no parallel in Minnesota utility regulation. For these reasons, the Commission should find that the Company's proposal lacks good cause and should reject this attempt to shift risk from shareholders to ratepayers.

C. Fluctuations in Large-Customer Sales Revenues are Neither Unusual Nor Unforeseeable.

The third reason that Minnesota Power's proposal lacks good cause is that it seeks to recover "lost" sales that are a routine part of the Company's business. A factor that the Commission commonly considers in deciding whether to grant deferred accounting of out-of-test-year costs is whether the costs are unforeseen or unusual. As already discussed, the revenues at issue in this case are neither "costs" nor "out-of-test-year." Setting that aside, the history of northern Minnesota's taconite and paper industries demonstrates that there is nothing unusual about Large Power customers idling in response to changing economic conditions. To the contrary, it was abundantly foreseeable when Minnesota Power withdrew its 2019 rate case that one or more Large Power customers would idle for a significant portion of 2020, and beyond. And it was foreseeable that Keetac and Verso in particular would idle longer than other Large Power customers. Indeed, these customers were *already idled* when Minnesota Power withdrew its rate case. For these reasons, and as further explained below, there is no good cause to track Keetac and Verso's "lost" revenues.

As these Comments have demonstrated, variability in Large Power sales and revenues is an ever-present risk of Minnesota Power's business. Over the past 40 years, taconite production and energy sales have routinely changed in response to both economy-wide and industry-specific forces.[80] Moreover, in the paper industry, a market-specific decline in graphic-paper demand has been underway since 2007, and shows no signs of abating, as consumers continue to exercise their preference for new electronic media over traditional print media.[81]

The 2020 recession is consistent with these ongoing patterns.

In the taconite industry, several customers shut down in the spring and summer of 2020 as demand for steel temporarily dropped. All but Keetac were back online by August as demand began to recover, and Keetac returned to production in December. These events are consistent with historical boom-and-bust cycles in the industry, and with these customers' particular sensitivity to global market prices. Moreover, the fact that Keetac was the last taconite producer to restart should not have been a surprise to anyone familiar with the plant and its role as a "swing" facility. It certainly should not have been a surprise to the Company; Minnesota Power has filed more than one rate case in response to Keetac's idling, and has had to revise its sales forecasts on multiple occasions when the plant has restarted mid–rate-case.

Notably, the softening of steel demand was an economic trend that predated COVID-19. Minnesota Power noted in its November 2019 rate-case testimony that "macro-economic activity

[80] *See supra* pp. 3–5.
[81] *See supra* p. 8.

has slowed recently, and North American steel production has also slowed down."[82] Specifically, in June 2019, U.S. Steel had announced the idling of two blast furnaces in the Great Lakes region due to weak demand.[83] And in mid-October, this same steelmaker announced that it would idle one of Minntac's production lines for the rest of the year.[84] Other steel manufacturers had also slowed down production at their facilities in 2019.[85]

In the paper industry, Verso's idling appears to represent the latest in a series of closures caused by a secular decline in paper demand that, according to Minnesota Power, will require production capacity to "come offline at a rate of approximately one mill or one large paper machine every 18 months."[86] The mill's 2020 idling was also presaged by the bankruptcies of two of its owners during the preceding decade, and the resulting amended ESAs that gave the mill the ability to avoid demand charges in the event of a temporary or permanent shutdown. Finally, as noted in Minnesota Power's rate-case testimony, Verso has been actively pursuing conversion of the mill to produce a more marketable product mix,[87] a process that will likely entail further lost sales both during and after the conversion.

Minnesota Power argues that the COVID-19 pandemic "is one of the most unusual and extraordinary events in the history of Minnesota Power."[88] The pandemic is undoubtedly an unusual and unexpected event. But as these Comments demonstrate, sales variations among Large Power customers in response to changing economic conditions are a routine risk that the Company faces. Put differently, while a pandemic may have been a unique *cause* for these shutdowns, the *impact* of the pandemic on the Company's electric sales is not unique at all.

[82] Frederickson Large Power Testimony at 24.
[83] *Id.* at 9.
[84] *Id.* at 9.
[85] *Id.* at 25.
[86] *Id.* at 35.
[87] Docket No. E-015/GR-19-442, Direct Testimony of Benjamin S. Levine at 21 (Nov. 1, 2019).
[88] Revenue-Tracking Petition at 24.

Although a specific recession is hard to predict before it happens, the fact is that recessions do regularly occur. And even if the Commission believes that the 2020 recession was an unusual and unforeseeable event, it was abundantly clear at the time Minnesota Power moved to resolve its rate case that one or more Large Power customers were going to be idled for a significant portion of 2020. And the customers most likely to idle, and remain idled the longest, were the two customers whose revenues Minnesota Power seeks to track—Keetac and Verso. For these reasons, the Commission should find that the Company has not established good cause to track these customers' revenue shortfall.

D. Keetac and Verso's Idling Has Not Had a Significant Impact on Minnesota Power's Financial Condition.

The fourth reason that Minnesota Power's proposal lacks good cause is that the "lost" sales from Keetac and Verso are not large enough to have a significant impact on the utility's financial condition. For the reasons explained below, Minnesota Power has not established that the lost revenues in this case meet this standard. But even if the Commission were to find that the lost revenues are large enough to have a significant impact on Minnesota Power's financial condition, it should nonetheless find good cause lacking for the reasons already discussed.

Minnesota Power, like most utility companies, is successfully weathering the COVID-19 recession. The Company's residential revenue has been higher than forecasted due to customers spending more time at home, and the Company has also experienced reduced operating expenses due to pandemic-related restrictions.[89] Moreover, the Company's long-term ESAs have blunted the impact of Large Power customers' idling, ensuring the Company substantial revenue even when some large customers were not consuming energy. All but one of these large customers

[89] *Id.*

have returned to service and submitted demand nominations consistent with full production. Finally, the Company received a $36 million, or 5.75 percent, base-rate increase effective May 1.

The Company's most recent earnings data demonstrate its strong financial position. On November 9, ALLETE reported regulated earnings for the first nine months of 2020 that were only slightly lower than in the same period of 2019.[90] And regulated earnings from for the third quarter of 2020 *exceeded* regulated earnings for the same quarter in 2019.[91] On the earnings call, ALLETE reported that its finances "remain well-positioned with a strong balance sheet and sufficient liquidity" and maintained its 2020 earnings guidance "in the range of $3.25 to $3.45 per share."[92] ALLETE emphasized that this earnings guidance "reflects lower kilowatt-hour sales to Keetac and Verso Corporation operations that remain idled . . . ."[93] Given these positive earnings results and guidance—which incorporate the impact of reduced sales to Keetac and Verso—Minnesota Power has not established that the lost revenue has had a significant impact on its financial condition.

The Company's petition does not even establish what the relevant amount of lost revenue is because the Company filed the petition just before U.S. Steel confirmed Keetac's restart. The petition quantifies the impact as "$32 million annually or approximately 7 percent of Minnesota Power's non-fuel retail revenue."[94] But with Keetac back online, the impact going forward is only **[TRADE SECRET BEGINS TRADE SECRET ENDS]** annually after offsetting market sales.[95] The ongoing revenue loss thus represents only **[TRADE SECRET**

[90] *See* ALLETE, Inc., *supra* note 59, at 3 (reporting year-to-date earnings of $111 million from regulated operations, compared to $114 million the year before).
[91] *See id.* ALLETE reported Q3 2020 earnings of $42.4 million, compared to $32.4 for Q3 2019. Some of the increase was due to timing differences. *See id.* at 3 n.1.
[92] ALLETE, Inc., Q3 2020 Earnings Call Transcript (Nov. 9, 2020), *available at* https://perma.cc/J779-S5DT.
[93] *Id.*
[94] Revenue-Tracking Petition at 15.
[95] *See* MP Resp. to OAG IR No. 003 at 2 (Dec. 2, 2020) (Attachment B to these Comments).

BEGINS TRADE SECRET ENDS] of Minnesota Power's 2020 unadjusted test-year nonfuel retail and wholesale sales revenues, and **[TRADE SECRET BEGINS TRADE SECRET ENDS]** of the Company's test-year nonfuel O&M budget.[96] The loss of Verso's annual revenue is thus similar in amount to expenses that the Commission has found to be insignificant in the past.[97]

Finally, Minnesota Power selectively quotes from credit-rating agency reports in order to imply that ALLETE will be at imminent risk of a credit downgrade if the Commission does not approve its petition.[98] But viewed as a whole, these reports do not show that the lost Keetac and Verso revenues pose any imminent threat to ALLETE's credit rating. S&P downgraded ALLETE in April 2020, due to the uncertainties surrounding COVID-19 and the Company's high exposure to industrial load.[99] But S&P's outlook for ALLETE at its downgraded level is stable based on the expectation that ALLETE will focus on its regulated operations rather than increase its investments in more risky unregulated operations.[100] Moody's has not taken any rating action related to ALLETE since March 2019. The agency maintains a stable outlook based on ALLETE's ability to postpone capital expenditures and reduce O&M expenses to mitigate industrial revenue losses.[101] And in recent reports, Moody's has noted that large

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[96] *Id.* at 2–3.
[97] *See In the Matter of the Petition of Northern States Power Company for Approval of Deferred Accounting for Manufactured-Gas-Plant Cleanup Costs*, Docket No. G-002/M-17-894, Order Denying Petition for Deferred-Accounting Treatment at 3 (Oct. 17, 2018) (declining to find that gas-plant cleanup costs equivalent to 3.39 percent of utility's O&M expenses would have significant impact on utility's financial condition).
[98] Revenue-Tracking Petition at 16.
[99] *See* Docket No. E-015/GR-19-442, MP Compliance Filing, attach. at 1 (Apr. 22, 2020) (attaching S&P Global April 22, 2020 credit-rating downgrade); *see also* Revenue-Tracking Petition at 16 (quoting from S&P downgrade).
[100] *See id.* at 1–2.
[101] *See* Docket No. E-015/GR-19-442, MP Compliance Filing, attach. at 5 (May 5, 2020) (attaching Moody's Investors Service April 30, 2020 credit opinion).

customers' full demand nominations in August are "credit positive" and will support continued strong cash flow for ALLETE.[102]

For all these reasons, Minnesota Power has not established that the lost Keetac and Verso revenues will have a significant impact on its financial condition. Accordingly, the Commission should find that the Company's revenue-tracking proposal is not supported by good cause and should reject it.

CONCLUSION

The COVID-19 pandemic is an extraordinary and unexpected event. But the lost revenues that Minnesota Power seeks to track in this case were foreseeable, and have not had a significant impact on the Company's financial condition. Allowing the Company to track these revenues for later recovery would undermine the resolution of its 2019 rate case, in which the Company received a rate increase in exchange for putting off further increases until November 2021. The Company must honor its stay-out commitment and tighten its belt along with its ratepayers during this difficult time. For all the foregoing reasons, the Commission should find

[102] *See* MP Resp. to OAG IR No. 013, attach. at 1 (Dec. 2, 2020) (attaching Moody's Investors Service August 17, 2020 credit opinion) (Attachment C to these Comments); Moody's Investors Service, Moody's Announces Completion of a Periodic Review of Ratings of ALLETE, Inc. (Oct. 8, 2020) (Attachment D to these Comments).

that Minnesota Power lacks good cause to track lost Large Power revenues and should reject its petition.

Dated: January 4, 2021

Respectfully submitted,

KEITH ELLISON
Attorney General
State of Minnesota

/s/ **Peter G. Scholtz**

PETER G. SCHOLTZ
Assistant Attorney General
Atty. Reg. No. 0389936

445 Minnesota Street, Suite 1400
St. Paul, Minnesota 55101-2131
(651) 757-1473 (Voice)
(651) 296-9663 (Fax)
peter.scholtz@ag.state.mn.us

ATTORNEYS FOR OFFICE OF
THE ATTORNEY GENERAL—
RESIDENTIAL UTILITIES DIVISION

OAG No. 010

State Of Minnesota
Office Of The Attorney General
Utility Information Request

In the Matter of Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting from the COVID-19 Pandemic	**MPUC Docket No.**	E-015/M-20-814

Requested from: Minnesota Power

Requested By:	Peter Scholtz	**Date of Request:**	November 18, 2020
Telephone:	(651) 757-1473	**Due Date:**	December 2, 2020

Identify each instance in the last 30 years when MP experienced a loss of Large Power load of 40 MW or more. Identify the customer(s) involved, the reason for the loss of load, the amount of the loss in MW, the start date and end date, and the amount of lost revenue. Explain whether MP filed any regulatory requests as a result of the loss, and identify any other steps the Company took to address the loss. Please also note any credit-rating impact caused by the loss.

Response:

Attachment 20-814 OAG IR 010.01 contains taconite production information, by property, going back over the past 30+ years, as compiled by the Minnesota Department of Revenue. Attachment 20-814 OAG IR 010.02 depicts the same Minnesota total tons of taconite production for 1981 through 2019 in graphical form. Using a generalized average consumption of approximately 130 kWh per long ton of pellets, and realizing that individual customer consumption rates may vary above or below the average, a 40 MW reduction in Large Power load would correspond to a reduction in tonnage of approximately 5.2 million tons on an annualized basis. Our records indicate that we most likely didn't have periods of time in the past 30 years in which we had paper customers shut down to the point where they had more than 40 MW of load reduction.

When considering the fact that Erie/LTV closed in 2001, reducing the "full production" taconite production level from about 46 million tons through 2000 to about 40 million tons thereafter, this methodology would indicate that taconite industry downturns due to market conditions contributed to Minnesota Power likely experiencing a loss of load greater than 40 MW in the following years: 1992, 1993, 1994, 2001, 2003, 2009, 2015, 2016.

Minnesota Power filed a rate case on January 3, 1994 (Docket E-015/GR-94-001), following the October 1993 idling of National Steel's Keewatin taconite mine and pellet operation.[1] After the close of the rate case record at the end of June 1994 and the signing of an Amendment to the Electric Service Agreement between Minnesota Power and National Steel, on August 15, 1994, Minnesota Power filed a motion to reopen the rate case record, which was granted, in order to reflect additional sales to National Steel in the test year.[2]

Following the permanent closure of LTV Steel Mining Company ("LTV," formerly Erie) in 2001, Minnesota Power purchased portions of LTV's Minnesota assets including coal-fired generation units located at Taconite Harbor. Minnesota Power subsequently filed for MPUC approval of a new Erie Mine Site Service ("EMSS") Schedule that incorporated a special rate for up to 25 MW of electric service to encourage future development in the Hoyt Lakes area.[3] The EMSS Schedule was approved by the Minnesota Public Utilities Commission ("MPUC" or "Commission") on August 20, 2003.[4]

On November 2, 2009, Minnesota Power filed a rate case that reflected the significant economic downturn and significant reduction in Large Power sales that was expected to continue for the 2010 test year.[5] In Rebuttal Testimony the Company filed a revised sales forecast anticipating significant increases in retail sales based mainly on increases in the March 2010 nominations (for May through August 2010) from its Large Power customers.[6]

On November 13, 2015 (Docket E-015/M-15-984) and June 30, 2016 (Docket E-015/M-16-564), Minnesota Power filed two separate petitions for competitive rates for energy-intensive trade-exposed ("EITE") customers. The second petition was approved by the Commission[7] and provided a discount to specified Large Power customers on energy usage above a 62.5 percent load factor, to encourage them to operate closer to full production levels.

[1] Minnesota Public Utilities Commission's November 22, 1994 Findings of Fact, Conclusions of Law, and Order in Docket E-015/GR-94-001, pages 7-8.
[2] Ibid, page 8.
[3] Minnesota Power's May 9, 2003 Petition for Approval of Erie Mine Site Service Schedule, Docket No. E-015/M-03-717.
[4] MPUC's August 20, 2003 Order adopting the Minnesota Department of Commerce's June 9, 2003 Comments recommending approval with reporting requirement, Docket No. E-015/M-03-717.
[5] Minnesota Power rate case, Docket No. E-015/GR-09-1151, Direct Testimony of David J. McMillan filed November 2, 2009, at page 5, lines 13 through 23, and page 10, line 25 through page 12, line 14.
[6] Minnesota Power rate case, Docket No. E-015/GR-09-1151, Rebuttal Testimony of David J. McMillan filed April 29, 2010, at page 4, line 18 through page 5, line 3 and page 18, line 24 through page 19, line 5.
[7] MPUC's December 21, 2016 Order Approving EITE Rate, Establishing Cost Recovery Proceeding, and Requiring Additional Filings, Docket No. E-015/M-16-564.

On November 2, 2016, Minnesota Power filed a rate case with a 2017 test year, partially because the U.S. Steel Keewatin Taconite mining facility ("Keetac") was idle and was expected to remain idle for 2017.[8] However, in December 2016 U.S. Steel announced its intention to restart Keetac in 2017, which led Minnesota Power to revise its test year sales forecast.

When credit rating agencies review ALLETE, the Company's exposure to its industrial customers is always taken into account since they represent over 50 percent of Minnesota Power's sales, which is unusually high for a typical utility. There are many factors that rating agencies use to determine ratings; however, for regulated utilities in general there are two main factors that go into determining credit ratings – support by regulators and credit metrics. Specifically, in S&P's April 22, 2020 report, where ALLETE was downgraded to a BBB rating, under the "Rating Action Rationale" section S&P noted that "although the company's large industrial customers have previously indicated expectations for strong production through August 2020 via the demand nomination process, the lack of a revenue decoupling mechanism combined with the company's large commercial and industrial presence in its service territory expose the company to revenue uncertainty for at least the remainder of the year".

In addition, Moody's April 30, 2020 credit opinion, where ALLETE credit rating remained at BBB1, noted that the Company's "take-or-pay contract structure with industrial customers mitigates immediate reduction in cash flow from lower industrial customer sales through the nomination cycle was a credit strength", however they also noted that "the cyclicality of ALLETE's industrial customer demand is a credit negative..." and that "in the absence of decoupling mechanisms, lower than anticipated regulated volumes can have a material negative impact on ALLETE's cash flow from operations".

As mentioned in OAG IR 011, the decision by the MPUC to disallow the annual rate review mechanism in Minnesota Power's 2016 rate case was also viewed as credit negative as stated by Moody's below (see also *OAG IR 011.01 Attach TS*).

> "ALLETE looked to mitigate the risk posed by lower industrial customer sales when it filed to adopt an annual rate review mechanism (ARRM) in the 2016 general rate case. The ARRM would have provided an ROE true-up that would have allowed MP to add a surcharge on customer bills if its earned ROE fell below a predetermined level or provide a refund if it was higher. However, the MPUC did not approve the measure, <u>a credit negative</u>."

In conclusion, while Minnesota Power's industrial customer load volatility exposes the Company to revenue uncertainty and results in a negative view from a credit rating perspective, the amount of regulatory support (or lack thereof) that the Company receives is also taken into consideration when credit ratings are determined.

[8] MPUC's March 12, 2018 Findings of Fact, Conclusions, and Order in Docket No. E-015/GR-16-664, pages 1 and 50.

Figure 3

History of Minnesota Taconite Production

Year	Butler	Eveleth	Hibbing	Inland	Erie	National	Reserve	Minntac	Total
1950	–	–	–	–	129,666	–	–	–	129,666
1951	–	–	–	–	99,977	–	–	–	99,977
1952	–	–	–	–	101,325	–	13,071	–	114,396
1953	–	–	–	–	228,499	–	257,435	133,504	619,438
1954	–	–	–	–	180,669	–	316,628	413,059	910,356
1955	–	–	–	–	195,979	–	521,200	623,491	1,340,670
1956	–	–	–	–	211,698	–	4,238,729	618,452	5,068,879
1957	–	–	–	–	487,303	–	5,558,262	766,739	6,812,304
1958	–	–	–	–	2,953,993	–	4,837,258	747,033	8,538,284
1959	–	–	–	–	4,109,000	–	3,763,189	542,106	8,414,295
1960	–	–	–	–	7,144,214	–	5,446,342	799,365	13,389,921
1961	–	–	–	–	6,772,654	–	5,652,522	761,913	13,187,089
1962	–	–	–	–	7,593,349	–	6,153,812	771,890	14,519,051
1963	–	–	–	–	7,852,473	–	8,044,362	798,405	16,695,240
1964	303	–	–	–	8,009,243	–	9,667,975	827,713	18,505,234
1965	10,700	52,826	–	–	8,039,657	–	10,023,520	877,459	19,004,162
1966	70	1,536,370	–	–	8,551,944	–	10,829,799	758,544	21,676,727
1967	1,617,409	1,738,068	–	–	9,900,479	470,918	9,695,533	888,950	24,311,357
1968	2,334,752	1,800,124	–	–	10,718,707	839,663	10,002,064	4,573,743	30,269,053
1969	2,599,906	1,916,899	–	–	10,198,586	2,285,744	10,352,579	6,056,598	33,410,312
1970	2,637,655	1,986,000	–	–	10,743,031	2,728,932	10,825,617	6,426,609	35,347,844
1971	2,647,930	2,055,131	–	–	10,192,628	2,813,242	9,628,920	6,439,695	33,777,546
1972	2,302,971	2,141,233	–	–	9,972,068	2,420,056	9,042,632	8,674,583	34,553,543
1973	2,563,093	2,065,042	–	–	11,657,631	2,578,023	10,424,648	12,540,908	41,829,345
1974	2,523,518	2,171,678	–	–	10,897,352	2,476,793	10,367,742	12,616,204	41,053,287
1975	2,437,411	2,164,677	–	–	10,884,511	2,433,579	10,695,052	12,193,687	40,808,917
1976	2,393,347	2,291,714	303,419	–	10,778,287	2,461,083	10,052,204	12,294,537	40,574,591
1977	1,686,590	2,572,909	2,150,170	232,457	4,646,451	2,621,627	5,033,248	7,428,136	26,371,588
1978	2,507,633	4,924,732	5,408,928	1,925,378	7,424,801	5,096,348	9,154,801	12,927,230	49,369,851
1979	2,552,255	5,604,688	6,250,348	2,238,443	8,820,258	5,367,815	7,033,658	16,492,186	54,359,651
1980	1,575,454	5,778,256	6,800,202	1,407,598	5,679,043	2,896,456	4,582,997	14,147,065	42,867,071
1981	2,194,960	5,879,859	7,125,897	2,385,967	7,943,641	3,424,392	7,643,807	12,381,951	48,980,474
1982	1,040,799	4,611,260	5,703,410	1,792,702	3,963,897	1,291,211	1,520,113	3,307,025	23,230,417
1983	1,556,523	3,265,821	4,205,470	2,136,155	2,045,065	3,270,837	985,318	7,708,073	25,173,262
1984	1,989,952	3,932,117	6,075,049	2,032,164	4,696,117	4,584,782	3,666,288	8,712,123	35,688,592
1985	952,476	2,943,613	5,059,291	1,821,941	4,862,497	4,428,662	3,282,389	9,913,832	33,264,701
1986	Closed	3,455,690	4,881,987	1,807,451	4,232,962	4,021,372	1,433,898	5,617,695	25,451,055
					LTV				
1987	–	3,481,280	7,685,375	2,118,660	6,774,330	4,314,534	Closed	7,668,870	32,043,049
1988	–	4,238,636	8,653,270	2,247,840	7,888,582	4,607,944	–	11,848,960	39,485,232
1989	–	4,910,384	8,186,626	2,269,177	7,372,667	4,745,024	–	11,846,319	39,330,197
							Cyprus/ Northshore		
1990	–	4,417,255	8,136,923	2,265,876	7,798,292	4,809,930	2,384,061	12,709,299	42,521,636
1991	–	3,374,068	8,016,302	2,337,141	6,887,320	4,850,261	1,986,223	12,470,635	39,921,950
1992	–	3,571,784	7,801,946	2,109,743	6,622,640	4,997,512	1,394,451	12,351,795	38,849,871
1993	–	3,124,040	7,244,015	2,403,766	7,403,623	2,758,923	3,406,029	13,509,891	39,850,287
1994	–	4,862,373	8,192,141	2,511,292	7,470,635	1,732,469	3,434,979	13,473,020	41,676,909
							Northshore/CCI		
1995	–	5,141,072	8,386,431	2,560,350	7,440,366	5,026,048	3,658,130	12,788,787	45,001,184
1996	–	4,842,571	7,910,004	2,530,053	7,182,697	4,775,999	4,071,680	12,560,634	43,873,638
1997	–	4,964,481	7,479,612	2,388,631	7,168,585	5,108,503	4,059,463	13,646,373	44,815,648
1998	–	4,773,026	7,608,548	2,550,795	6,657,167	5,260,207	4,182,872	13,291,377	44,323,992
1999	–	4,342,770	6,623,571	2,658,663	6,593,497	5,225,632	3,678,803	12,169,971	41,292,907
2000	–	3,850,443	8,008,869	2,698,927	7,305,807	5,459,565	4,075,170	13,561,035	44,959,816
2001	–	4,159,792	5,891,288	2,629,420	69,209	4,371,589	2,648,289	11,858,907	31,628,494
2002	–	4,204,799	7,408,541	2,661,129	0	5,463,637	3,979,283	13,794,178	37,511,567
		United Taconite				**Keewatin Taconite**			
2003	–	1,630,242*	7,769,999	2,657,673	–	4,376,891*	4,683,657	13,231,018	34,349,480
Totals	40,125,707	134,777,723	184,967,632	59,379,392	323,555,072	136,396,203	268,390,702	403,561,572	1,551,154,003

Numbers after 1986 do not include flux. Beginning with 1990, all weights are dry. Taconite production tax report tonnages.
*1,552,080 of the 1,630,242 is Eveleth Taconite and 78,162 is United Taconite; 1,736,758 of the 4,376,891 is National and 2,640,133 is Keewatin

Minnesota Taconite Production Summary (1950-2019)

Production Year	Butler 1	Eveleth	Hibbing Taconite	Inland Steel	Erie/LTV2	National	Reserve3	U.S. Steel-Minntac	Total
1950-1959	---	---	---	---	8,698,109	---	19,505,772	3,844,384	32,048,265
1960-1969	6,563,140	7,044,287	---	---	84,781,306	3,596,325	85,868,508	17,114,580	204,968,146
1970-1979	24,252,403	27,977,804	14,112,865	4,396,278	96,017,018	30,997,498	92,258,522	108,033,775	398,046,163
1980-1989	9,310,164	42,496,916	64,376,577	20,019,655	55,458,801	37,585,214	23,114,810	93,151,913	345,514,050
							Cyprus/ Northshore		
1990-1994	---	19,349,520	39,391,327	11,627,818	36,182,510	19,149,095	12,605,743	64,514,640	202,820,653
							Northshore		
1995-2002	---	36,278,954	59,316,864	20,677,968	42,417,328	40,691,180	30,353,690	103,671,262	333,407,246
		United Taconite				**U.S. Steel-Keewatin Taconite**			
2003	---	1,630,242	7,769,999	2,657,673	---	4,376,891	4,683,657	13,231,018	34,349,480
2004	---	4,030,871	8,101,948	2,693,971	---	5,343,915	4,912,594	14,327,728	39,411,027
2005	---	4,836,140	8,147,611	2,558,197	---	5,196,512	4,799,887	13,996,412	39,534,759
				Mittal Steel USA					
2006	---	4,207,096	8,125,923	2,707,562	---	5,234,336	4,970,526	13,702,701	38,948,144
				Arcelor-Mittal					
2007	---	5,278,708	7,265,682	2,495,201	---	5,220,394	4,975,108	12,750,828	37,985,921
2008	---	4,986,395	8,058,366	2,571,803	---	4,663,703	5,299,304	13,588,239	39,167,810
2009	---	3,777,486	1,693,512	1,364,783	---	74,680	3,081,289	7,087,356	17,079,106
2010	---	5,028,482	5,697,457	2,604,162	---	4,883,724	4,599,796	12,226,427	35,040,048
2011	---	5,095,221	7,604,595	2,625,659	---	4,969,039	5,591,721	13,047,915	38,934,150
2012	---	5,220,491	7,753,828	2,658,023	---	5,144,477	5,140,985	13,063,450	38,981,254
2013	---	5,081,692	7,312,252	2,645,243	---	4,956,740	3,776,603	13,448,911	37,221,441
2014	---	4,823,478	7,338,620	2,508,625	---	5,153,784	5,123,277	13,705,811	38,653,595
2015	---	3,011,800	7,760,305	2,490,099	---	1,702,877	4,168,373	11,491,695	30,625,149
2016	---	1,535,192	7,928,200	2,585,337	---	85,899	3,153,811	12,695,781	27,984,220
2017	---	4,622,710	7,456,883	2,592,807	---	4,466,520	5,162,815	13,418,112	37,719,847
2018	---	4,983,259	7,481,616	2,607,494	---	5,180,427	5,480,542	13,365,538	39,098,876
2019	---	5,079,821	7,180,256	2,556,397	---	5,120,108	5,024,544	12,128,617	37,089,743
Total	**40,125,707**	**206,376,565**	**299,874,686**	**99,644,755**	**323,555,072**	**203,793,338**	**343,651,877**	**607,607,093**	**2,087,539,350**

Note:
Numbers after 1986 do not include flux.
Beginning in 1990, all weights are dry.
Production Tax report tonnages are used.

OAG No. 003

State Of Minnesota
Office Of The Attorney General
Utility Information Request

In the Matter of Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting from the COVID-19 Pandemic	**MPUC Docket No.**	E-015/M-20-814

Requested from: Minnesota Power

Requested By:	Peter Scholtz	**Date of Request:**	November 18, 2020
Telephone:	(651) 757-1473	**Due Date:**	December 2, 2020

Reference: Petition at 15. MP reports a sales loss of 1 million kWh, or 11% of its retail kWh sales as a result of Keetac and Verso's indefinite idling. In terms of revenues, MP states that the loss is approximately $32 million annually, or 7% of its nonfuel retail revenue.

The day after MP filed its petition, U.S. Steel announced that Keetac would be restarting in mid-December 2020.[1]

a. How does Keetac's return to production change the above-referenced figures (as well as the figures reported in Table 1 of MP's petition)? Provide all data and assumptions supporting your answer.

Response:

Assuming Verso is idle and Keetac production is consistent with the 2020 Minnesota Power test year, going forward Minnesota Power's retail sales would decrease [TRADE SECRET DATA BEGINS [redacted] TRADE SECRET DATA ENDS] and non-fuel retail revenue would decrease [TRADE SECRET DATA BEGINS [redacted] TRADE SECRET DATA ENDS]. See OAG IR 003.01 Attach PUB.

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[1] https://www.duluthnewstribune.com/business/energy-and-mining/6750055-US-Steel-will-restart-Keetac-next-month

Response by	Tim Beddow	Mary Leuthner
Title	Customer Business Analyst II	Accounting Analyst Principal
Department	Customer Experience Business Services & Market Development	Financial Reporting & Budgeting
Telephone	218-355-3391	218-355-3465

b. Accounting for Keetac's return to production, what is the expected revenue loss for September–December 2020? Provide all data and assumptions supporting your answer.

Response:

Assuming Verso remains idle through December 2020 and Keetac returns to production in December 2020, Minnesota Power expects a $5 million loss in non-fuel retail revenue for September–December 2020. See OAG IR 003.01 Attach TS.

c. Accounting for Keetac's return to production, what is the expected revenue loss for calendar year 2021? Provide all data and assumptions supporting your answer.

Response:

Assuming Verso is idle for all of 2021 and Keetac's production level is the same as the 2020 Minnesota Power test year production levels, Minnesota Power expects a [TRADE SECRET DATA BEGINS [redacted] TRADE SECRET DATA ENDS] loss in non-fuel retail revenue for 2021, net of partially offsetting sales transactions due to loss of load (See OAG IR 003.01 Attach PUB). Forecasted levels for 2021 are unavailable at this time.

d. Accounting for Keetac's return to production, what percent of MP's annual retail demand (MW) sales do the lost Keetac and Verso revenues represent? Provide all data and assumptions supporting your answer.

Response:

Since not all Minnesota Power customers are billed demand (MW) this request is not available.

e. Accounting for Keetac's return to production, what percent of MP's annual nonfuel retail *and wholesale* sales revenues do the lost Keetac and Verso revenues represent? Provide all data and assumptions supporting your answer.

Response:

Assuming Verso is idle and Keetac production is consistent with the 2020 Minnesota Power test year, lost non-fuel revenue net of partially offsetting sales transactions due to loss of load represents [TRADE SECRET DATA BEGINS [redacted] TRADE SECRET DATA ENDS] of Minnesota Power's 2020 unadjusted test year non-fuel retail and wholesale sales revenue. See OAG IR 003.01 Attach PUB.

Response by	Tim Beddow	Mary Leuthner
Title	Customer Business Analyst II	Accounting Analyst Principal
Department	Customer Experience Business Services & Market Development	Financial Reporting & Budgeting
Telephone	218-355-3391	218-355-3465

f. Accounting for Keetac's return to production, what percentage of MP's annual nonfuel O&M budget do the lost Keetac and Verso revenues represent? Provide all data and assumptions supporting your answer.

Response:

Assuming Verso is idle and Keetac production is consistent with the 2020 Minnesota Power test year,, lost non-fuel revenue represents [TRADE SECRET DATA BEGINS [redacted] TRADE SECRET DATA ENDS] of Minnesota Power's 2020 unadjusted test year non-fuel O&M. See OAG IR 003.01 Attach PUB.

Response by	Tim Beddow	Mary Leuthner
Title	Customer Business Analyst II	Accounting Analyst Principal
Department	Customer Experience Business Services & Market Development	Financial Reporting & Budgeting
Telephone	218-355-3391	218-355-3465

OAG No. 013

State Of Minnesota
Office Of The Attorney General
Utility Information Request

In the Matter of Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting from the COVID-19 Pandemic	**MPUC Docket No.**	E-015/M-20-814

Requested from: Minnesota Power

Requested By:	Peter Scholtz	**Date of Request:**	November 18, 2020
Telephone:	(651) 757-1473	**Due Date:**	December 2, 2020

Provide the August 17, 2020 Moody's document titled: "ALLETE, Inc.: Full production at large industrial customers through 2020 is credit positive."

Date	Document Type	Title	Source
08 Oct 2020	Announcement of Periodic Review	Moody's announces completion of a periodic review of ratings of ALLETE, Inc.	Moody's Investors Service
17 Aug 2020	Issuer Comment	ALLETE, Inc.: Full production at large industrial customers through 2020 is credit positive ALLETE's largest industrial power customers nominated full production through December 2020, which will help the utility exhibit a stable financial performance.	Moody's Investors Service
30 Apr 2020	Credit Opinion	ALLETE, Inc.: Update to credit analysis	Moody's Investors Service

Response:

Please see *OAG IR 013.01 Attach PUB* for the August 17, 2020 Moody's document.

Response by <u>Tara Anderson</u>
Title <u>Supervisor – Investments & Analysis</u>
Department <u>Finance</u>
Telephone <u>218-355-3470</u>

NON-PUBLIC DOCUMENT
CONTAINS TRADE SECRET DATA IN ITS ENTIRETY

20-814 OAG IR 13.01 Attach

MOODY'S
INVESTORS SERVICE

Announcement of Periodic Review: Moody's announces completion of a periodic review of ratings of ALLETE, Inc.

08 Oct 2020

New York, October 08, 2020 -- Moody's Investors Service ("Moody's") has completed a periodic review of the ratings of ALLETE, Inc. and other ratings that are associated with the same analytical unit. The review was conducted through a portfolio review in which Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), recent developments, and a comparison of the financial and operating profile to similarly rated peers. The review did not involve a rating committee. Since 1 January 2019, Moody's practice has been to issue a press release following each periodic review to announce its completion.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Credit ratings and outlook/review status cannot be changed in a portfolio review and hence are not impacted by this announcement. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key rating considerations are summarized below.

ALLETE, Inc.'s (ALLETE) Baa1 rating reflects the company's strong cash flow generation primarily derived from its regulated business, about 85% of consolidated net income in 2019, and the credit supportive rate making mechanisms in place at the regulated utilities. The rating is constrained by a highly concentrated customer base that is on commodity risk exposed industrial customers, which comprise around 50% of annual sales. However, given the nature of the long-term contracts with these industrial customers (take or pay contracts), ALLETE's revenues are insulated from immediate loss in sales due resulting from lower production levels.

The company's credit metrics weakened following the issuance of debt in Q2 2020 to support liquidity. However, CFO pre-WC to debt is expected to rebound to about 19% over the next 12 to 18 months. On a consolidated basis, cash flows are largely derived from ALLETE's primary utility division, Minnesota Power (70%), wholly-owned regulated utility subsidiary Superior Water Light and Power Company (3%) and from its 8% ownership stake in American Transmission Company LLC. ALLETE's unregulated business segments include a growing portfolio of fully contracted wind projects and a small fully contracted coal mining operation. The rating incorporates our expectation that ALLETE's unregulated business segment will remain small and produce stable cash flow.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

This announcement applies only to EU rated and EU endorsed ratings. Non EU rated and non EU endorsed ratings may be referenced above to the extent necessary, if they are part of the same analytical unit.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Edna Marinelarena
Analyst
Project & Infrastructure Finance
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Michael G. Haggarty
Associate Managing Director
Project & Infrastructure Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

January 4, 2021

Mr. Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

Re: ***In the Matter of Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting from the COVID-19 Pandemic***
MPUC Docket No. E-015/M-20-814

Dear Mr. Seuffert:

Enclosed and e-filed in the above-referenced matter please find Public and Trade Secret Comments of the Minnesota Office of the Attorney General—Residential Utilities Division.

By copy of this letter all parties have been served. A Certificate of Service is also enclosed

Sincerely,

/s/ **Peter G. Scholtz**
PETER G. SCHOLTZ
Assistant Attorney General

(651) 757-1473 (Voice)
(651) 296-9663 (Fax)
peter.scholtz@ag.state.mn.us

CERTIFICATE OF SERVICE

Re: ***In the Matter of Minnesota Power's Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting from the COVID-19 Pandemic***
MPUC Docket No. E-015/M-20-814

I, JUDY SIGAL, hereby certify that on the 4th day of January, 2021, I e-filed with eDockets ***Public and Trade Secret Comments of the Minnesota Office of The Attorney General—Residential Utilities Division*** and served a true and correct copy of the same upon all parties listed on the attached service list by e-mail, electronic submission, and/or United States Mail with postage prepaid, and deposited the same in a U.S. Post Office mail receptacle in the City of St. Paul, Minnesota.

/s/ Judy Sigal
JUDY SIGAL

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Elizabeth	Brama	ebrama@taftlaw.com	Taft Stettinius & Hollister LLP	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-814_M-20-814
Matthew	Brodin	mbrodin@taftlaw.com	Taft Stettinius & Hollister LLP	2200 IDS Center 80 South Eighth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-814_M-20-814
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-814_M-20-814
Riley	Conlin	riley.conlin@stoel.com	Stoel Rives LLP	33 S. 6th Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-814_M-20-814
Hillary	Creurer	hcreurer@allete.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Electronic Service	No	OFF_SL_20-814_M-20-814
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_20-814_M-20-814
Lori	Hoyum	lhoyum@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_20-814_M-20-814
Michael	Krikava	mkrikava@taftlaw.com	Taft Stettinius & Hollister LLP	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-814_M-20-814
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-814_M-20-814
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_20-814_M-20-814

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Susan	Ludwig	sludwig@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_20-814_M-20-814
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_20-814_M-20-814
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	Yes	OFF_SL_20-814_M-20-814
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-814_M-20-814
Jennifer	Peterson	jjpeterson@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_20-814_M-20-814
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_20-814_M-20-814
Susan	Romans	sromans@allete.com	Minnesota Power	30 West Superior Street Legal Dept Duulth, MN 55802	Electronic Service	No	OFF_SL_20-814_M-20-814
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-814_M-20-814
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_20-814_M-20-814