



30 west superior street / duluth, minnesota 55802-2093 / fax: 218-723-3955/www.allete.com

Christopher D. Anderson
Associate General Counsel
218-723-3961
e-mail canderson@allete.com

January 10, 2014

VIA ELECTRONIC FILING

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of Minnesota Power's 2013 Remaining Life Depreciation Petition
Docket No. E015/D-13-275

Dear Dr. Haar:

Minnesota Power hereby electronically submits its Reply Comments in the above-referenced Docket. An affidavit of service is included.

Please contact me at the number above should you have any questions related to this matter.

Yours truly,

Christopher D. Anderson

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c: Service List



**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of Minnesota Power's
2013 Remaining Life Depreciation
Petition

Docket No. E015/D-13-275
REPLY COMMENTS

Minnesota Power files these Reply Comments regarding its 2013 Remaining Life Depreciation Petition ("Petition") in response to Comments filed by the Minnesota Department of Commerce, Division of Energy Resources ("Department") dated October 11, 2013. Minnesota Power appreciates the Department's review of this Petition.

Minnesota Power agrees with the Department's Recommendations 1. through 4.

For Recommendation 5., Minnesota Power requests approval of the salvage rates as proposed in the Petition. The Department recommends that the Commission require that Minnesota Power use the salvage rates based on the 2011 Decommissioning Study in its depreciation calculation. However, that position should not be adopted. Minnesota Power intentionally did not incorporate the 2011 Decommissioning Study into this Petition as it was a planning tool which supported Minnesota Power's 2013 Resource Plan and was not completed for the 2013 Remaining Life Depreciation Petition. In 2011, Minnesota Power prepared this special decommissioning study for use in the February 2012 Baseload Diversification Study ("BDS"). Minnesota Power is in the process of completing an updated Decommissioning Study which will be finalized and incorporated into Minnesota Power's 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study as is required every five years. See 2013 estimated salvage rates and impacts on depreciation expense in Table 1 below.

Table 1
Salvage Rates and Estimated Impact on Depreciation

	Salvage Rates Proposed in 2013 Depreciation Petition from 2009 Decommissioning Study	Salvage Rates Calculated with Estimates from 2011 Decommissioning Study	Salvage Rates Calculated with Estimates from Updated Decommissioning Study (1)
Boswell Energy Center			
Unit 1	-1.82%	-6.92%	-6.23%
Unit 2	-2.27%	-9.13%	-8.06%
Unit 3	-4.19%	-4.93%	-4.50%
Unit 4	-3.84%	-4.88%	-4.65%
Common	-1.77%	-2.89%	-2.11%
Laskin Energy Center	-10.87%	-33.95%	-14.66%
Taconite Harbor	-3.60%	-5.91%	-4.36%

(1) The five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study

Estimated Impacts on
Depreciation Expense
Compared to Proposed
Salvage Rates:

N/A \$2.6 million increase \$0.9 million increase

The major assumption changes between the five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study and the 2011 Decommissioning Study are:

- 1) For the five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study the assumptions used for the 2011 Decommissioning Study were reviewed for appropriateness and prudence, and Rules and Regulations currently in effect were reflected consistent with Minnesota Power's current thinking. This review resulted in the following adjustments:
 - a) All structures will be demolished to grade versus four feet below grade
 - b) Coal pile restoration will be six inches below grade versus a foot below grade
 - c) Ten percent contingency versus twenty percent contingency
 - d) Laskin Energy Center (Laskin) ponds will be capped versus relocating all ash
 - e) Deposit concrete at Laskin on-site versus off-site

- 2) Lower scrap values used for the five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study are based on actual scrap values at the time of the study and as such these values will be subject to change with the economy at the time of the study and any subsequent Decommissioning Studies.

The Department Comments noted that the majority of the \$2.6 million increase in depreciation expense is attributable to the decrease in the salvage rate of the Laskin Energy Center and recommends that the Commission require Minnesota Power to use the salvage rates based on the 2011 Decommissioning Study in its depreciation calculations. Minnesota Power does not agree with using the salvage rates from the 2011 Decommissioning Study for any of the units, but especially for Laskin (-33.95%), as the five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study that Minnesota Power is in the process of completing results in an estimated salvage rate for Laskin of -14.66%. Therefore, Minnesota Power requests approval of the salvage rates proposed in the Petition and will incorporate the five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study into Minnesota Power's 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study.

Decommissioning rates affect the utility's annual earning level through the annual depreciation rate setting mechanism established through the Commission's accounting review process. In the past Minnesota Power has reviewed decommissioning estimates every five years as part of its Production Plant Depreciation Study which is due in 2014, so Minnesota Power filed 2013 status quo with plans to adjust the salvage rates in 2014 based on the results of the five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study. As a publicly traded company Minnesota Power provides earnings guidance, relying in part on precedence for items such as decommissioning studies and rates. Requiring an updated decommissioning study and updated decommissioning rates under currently un-established guidelines or precedence results in uncertainty which is problematic. Therefore, Minnesota Power requests that the plan to adjust the salvage rates in 2014

based on the results of the five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study be followed.

If Minnesota Power would have planned on incorporating the 2011 Decommissioning Study in the 2013 Remaining Life Petition, other changes, -- such as life extensions for hydro facilities -- would have been requested. For example, Minnesota Power is planning on requesting life extensions for all hydraulic generating units in 2014 as a result of significant capital investments in Minnesota Power's hydraulic generating units, in part due to the historic rainfall event in 2012, and also based on the Comments filed by the Department in Otter Tail Power Company's 2011 and 2012 Annual Review of Depreciation Certifications. The Department raised minor concerns with the practice of using an expiration of an operating license as the basis for an asset's remaining life, as the expiration date of a regulatory license does not necessarily reflect an asset's forecasted retirement date resulting from an engineering evaluation. The Department raised particular concerns for Otter Tail Power Company's units that had relatively large plant additions recently. For hydraulic generating units, Minnesota Power currently uses expiration of an operating license as the basis for an asset's remaining life as well. However, life extensions based on engineering evaluation will be requested by Minnesota Power in the 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study.

Minnesota Power also requested that the Commission open a broader Generic Docket on Decommissioning to provide guidance and clarification regarding decommissioning studies, costs, probabilities, etc. to eliminate confusion and issues going forward.

In conclusion, Minnesota Power requests approval of the salvage rates proposed in the Petition and Minnesota Power will incorporate the five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study into the 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study.

Date: January 10, 2014

Respectfully submitted,

/s/ Debra A. Davey
Debra A. Davey
Supervisor, Accounting
Minnesota Power
30 West Superior Street
Duluth, MN 55802
(218) 355-3714
ddavey@allete.com

STATE OF MINNESOTA)
) ss
COUNTY OF ST. LOUIS)

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

Kristie Lindstrom of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 10th day of January, 2014, she served Minnesota Power's Reply Comments in Docket No. E015/D-13-275 to the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The remaining parties on the attached service list were served as so indicated on the list.

/s/ Kristie Lindstrom

Subscribed and sworn to before
me this 10th day of January, 2014.

/s/ Jodi Nash

Notary Public - Minnesota
My Commission Expires Jan. 31, 2015

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_13-275_D-13-275
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	Yes	OFF_SL_13-275_D-13-275
Debra A	Davey	ddavey@allete.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Paper Service	No	OFF_SL_13-275_D-13-275
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_13-275_D-13-275
Elizabeth	Goodpaster	bgoodpaster@mncenter.org	MN Center for Environmental Advocacy	Suite 206 26 East Exchange Street St. Paul, MN 551011667	Electronic Service	No	OFF_SL_13-275_D-13-275
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-275_D-13-275
Margaret	Hodnik	mhodnik@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_13-275_D-13-275
Lori	Hoyum	lhoyum@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_13-275_D-13-275
Jodi	Johnson	jjohnson@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802-2010	Electronic Service	No	OFF_SL_13-275_D-13-275
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-275_D-13-275
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-275_D-13-275

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_13-275_D-13-275
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_13-275_D-13-275
Susan	Ludwig	sludwig@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_13-275_D-13-275
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Paper Service	No	OFF_SL_13-275_D-13-275
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_13-275_D-13-275
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-275_D-13-275
Thomas	Scharff	thomas.scharff@newpagecorp.com	New Page Corporation	P.O. Box 8050 610 High Street Wisconsin Rapids, WI 544958050	Electronic Service	No	OFF_SL_13-275_D-13-275
Ron	Spangler, Jr.	rlspangler@otpc.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_13-275_D-13-275
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_13-275_D-13-275
Karen	Turnboom	karen.turnboom@newpagecorp.com	NewPage Corporation	100 Central Avenue Duluth, MN 55807	Electronic Service	No	OFF_SL_13-275_D-13-275

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Laurance R.	Waldoch		Lindquist & Vennum	4200 IDS Center 80 South 8th Street Minneapolis, MN 554022274	Paper Service	No	OFF_SL_13-275_D-13-275