



AN ALLETE COMPANY

April 3, 2026

VIA E-FILING

Sasha Bergman
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

**Re: In the Matter of the Petition of
Docket No. E015/M-25-433
Reply Comments**

Dear Ms. Bergman:

Minnesota Power (or the “Company”) submits to the Minnesota Public Utilities Commission (“Commission”) these Reply Comments in response to the Department of Commerce, Division of Energy Resources (“Department” or “DOC”) Initial Comments (“Initial Comments”) filed on March 18, 2026, in the above-referenced Docket. On December 22, 2025, Minnesota Power filed its Petition seeking Commission approval of the Company’s 2026 rate adjustment mechanism (“2026 Transmission Factor”) under its Rider for Transmission Cost Recovery (“TCR” or “Rider”).

The Department recommends in its Initial Comments that:

- The Commission approve Minnesota Power’s Petition with the modification to require the Company to adjust its proposed rate recovery to cap the Duluth Loop total capital spending at \$108,953,301, reducing capital expenditures by \$3,720,254. Additionally, require the Company to file updated proposed tariff revisions to reflect the above modifications.
- Minnesota Power explains in its reply comments whether it will receive Midcontinent Independent System Operator (“MISO”) Schedule 9 revenues from MISO for the Duluth Loop Project¹ once the project goes into service which is expected to occur in December 2026.

¹ See Docket Nos. E015/CN-21-140 and E015/TL-21-141.

- The Commission requires the Company to report in future TCR riders any net credits it receives from MISO for other utilities use of the Duluth Loop and HVDC Modernization projects once they are in-service, as well as any other applicable future projects.
- Minnesota Power provides in its Reply Comments an analysis on the current Petition of the financial impact of the ALLETE Acquisition requirement² that decreased the Return on Equity (“ROE”) from 9.78% to 9.65%.
- The Commission requires the Company to file updated proposed tariff revisions to reflect the above modifications.

Minnesota Power appreciates the time and effort by the Department to review the Company’s 2026 Transmission Cost Recovery Petition, especially with the significant number of large and complex dockets currently in the regulatory review process. In the following section, the Company confirms that the Duluth Loop Project has not exceeded the high end of the range approved in the Commission’s April 23, 2023 Certificate of Need (“CoN”) and Routing Permit Order (“Duluth Loop Order”); and that Minnesota Power used the decreased ROE of 9.65% in the Petition.

Reply Comments

Duluth Loop Project Capital Spending

An estimated capital cost range between \$50 million and \$70 million (2021 dollars) was approved in the Duluth Loop Order. In Table 2 (page 10) of the Initial Comments, the Department adds the Construction Work in Progress (“CWIP”) total amount of \$39,942,048 to the Net Plant total amount of \$72,731,507 shown in Exhibit B-4, Section A, Line 0 and Line 3, respectively, on page 3 (see Figure 1). The Department states the \$112,673,555 total is the Company’s proposed capital spend for recovery escalated to 2026 dollars (see Figure 2).

² ALLETE Acquisition in Docket E015/PA-24-198.

Minnesota Power Transmission Cost Recovery Rider 2026 Tracker - Duluth Loop Projects													Exhibit B-4 Page 3 of 30		
2026 Projected Tracker - Duluth Loop Projects 2/															
Section	Line	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26	Total
A	Book Basis of Property														
	0 CWIP		12,770,225	14,139,762	17,029,366	19,918,970	22,908,574	25,898,178	28,338,823	30,779,468	33,220,113	35,360,758	37,501,403	39,942,048	39,942,048
	1 Plant in Service		33,983,132	33,983,132	33,983,132	33,983,132	33,983,132	33,983,132	33,983,132	33,983,132	33,983,132	33,983,132	33,983,132	73,925,180	73,925,180
	2 Total Accumulated Depreciation		469,430	531,931	594,432	656,934	719,435	781,936	844,437	906,938	969,439	1,031,941	1,094,442	1,193,673	1,193,673
	3 Net Plant		33,513,701	33,451,200	33,388,699	33,326,198	33,263,697	33,201,196	33,138,695	33,076,193	33,013,692	32,951,191	32,888,690	72,731,507	72,731,507

Figure 1 - Exhibit B-4, Section A on Page 30

CWIP	\$39,942,048
Net Plant	\$72,731,507
Proposed Capital Spend for Recovery	\$112,673,555
Capital Cost Cap in 2026 Dollars	\$108,953,301 ³⁵
Capital Spend Over/(Under) Cap	\$3,720,254

Figure 2 - Table 2 on page 10 of Department's Initial Comments

The CWIP amount in Table 2 is correct for the period ending December 31, 2026, and for the adjacent Total column in Exhibit B-4 shown in Figure 1. However, the Duluth Loop Project is projected to be placed in service by December 31, 2026; therefore, as of that date, the CWIP amount (\$39,942,048) is transferred into *Plant in Service* reducing CWIP to \$0. Minnesota Power's proposed capital spend for recovery is calculated by adding the \$33,983,132 *Plant in Service* as of November 30, 2026, and the transferred amount of \$39,942,048 for a total *Plant in Service* of \$73,925,180 (2026 dollars).³

Table 1 - Calculation of Plant in Service for Duluth Loop Project

Time Period	CWIP	Plant in Service	Notes
Nov. 2026	\$37,501,403	\$33,983,132	Totals as of Nov 30, 2026: 2026 Tracker Nov 26 Exhibit B-4 page 3.
Dec. 2026	\$2,440,645	n/a	Dec. CWIP Accrual: Exhibit B-4, page 26.
Dec. 2026	\$39,942,048	n/a	Total CWIP
Dec. 31, 2026	(\$39,942,048)	\$39,942,048	Total CWIP moved into Plant in Service.
Total 2026 Dollars	-	\$73,925,180	Total: Exhibit B-4, page 26 and 2026 Tracker Exhibit B-3, page 3.

The correct estimated capital spend included in the Company's requested revenue requirements for recovery is detailed in Exhibit B-4, pages 19-26 of the Petition. As shown

³ Net Plant does not equal capital spend; rather, Net Plant is *Plant in Service* less Accumulated Depreciation.

on page 26 of Exhibit B-4, the total rider recoverable capital spend is currently estimated at \$73,925,180. As discussed in the Petition and as shown in Exhibit B-4, internal costs and Allowance for Funds Used During Construction (“AFUDC”) on internal costs have been properly excluded.

Approved Estimated Cost Range in Nominal Dollars

As explained on page 33 of the Petition, the actual capital expenditure is within the original \$50-\$70 million range when inflation is accounted for. The Department requested in Information Request No. 5 in the above-referenced Docket that the Company “*escalate*” the initial estimate of \$70 million to 2026 dollars (also referred to as nominal dollars) using the same escalation factor in Exhibit B-4, page 30. The factor applied is from the Handy-Whitman Index of Public Utility Construction Costs. The amount of \$108,953,301 ($\$70,000,000 \times (1,266.193/813.5)$) is correct when the Handy-Whitman factors of (1,266.193/813.5) are used to *escalate* \$70 million. Consistent with Handy-Whitman factors application in prior TCR petition filings, Exhibit B-4, page 30 shows their application to “*deflate*” capital expenditure’s current nominal dollars *back to 2021 dollars* used in the original cost estimate. The total actual capital expenditure is \$76,669,836 in 2026 dollars. This amount has not been reduced by excluding internal cost or AFUDC on internal costs. Applying the Handy-Whitman factors to deflate the annual nominal dollars to 2021 dollars results in a total of \$52,871,314 which is well within the Commission’s approved estimated capital costs range. Therefore, no modification to the 2026 TCR capital expenditures is needed.

Refer to DOC IR 01.3 Attach_Duluth Loop – Inflation Increase 2026 in the above-referenced Docket for a live spreadsheet version of Exhibit B-4. DOC IR 5, part a, provides an explanation of Exhibit B-4 and DOC IR 01.3 Attach_Duluth Loop – Inflation Increase 2026.

Use of the Handy-Whitman Indexes methodology is a long-standing industry practice and its application has received Commission approval in several recent TCR petitions: 2024

TCR Petition, Docket E015/M-23-460 (see Exhibit B-7, page 1); 2023 TCR Petition, Docket No. E015/M-22-573 (see Exhibit B-9, page 1); 2022 TCR Petition, Docket E01/M-21-857 (see Exhibit B-9, page 1); and 2021 TCR Petition, Docket No. E015/M-20-900 (see Exhibit B-9, pages 1 and 2).

Financial Impact on Petition of Decreased ROE

The financial analysis for Minnesota Power's 2026 TCR Petition reflects the use of the reduced ROE of 9.65% required per the Executed Settlement Agreement in the Company's Acquisition docket E015/PA-24-198. Exhibit B-3, page 1 shows the reduction of the ROE from 9.78% to 9.65%. This is also shown in the live spreadsheets included in *DOC IR 01.1 Attach_2026 Factor* to the Department's Information Request No. 1 (see *Rate of Return* Tab). In Sections IV.D.1.b.(i) and IV.D.2.b (pages 38 and 40, respectively), Minnesota Power states, "The Company has updated the rate of return beginning January 1, 2026 to reflect the lower return on equity per the Executed Settlement Agreement in the Company's Acquisition docket E015/PA-24-198. Refer to Exhibit B-3 for related support." Therefore, no further financial analysis is required as it was provided in Exhibit 3 to the Petition.

The Department references language on pages 41-42 of the Petition regarding the Company's proposal "to use its equity and debt components approved in its last retail rate case (Docket No. E015/GR-23-155) to calculate its return on investment in this proceeding." The language on pages 41-42 states, "Minnesota Power has utilized the appropriate authorized rate of return and the jurisdictional Power Supply Transmission Demand allocators, based on those approved by the Commission in Minnesota Power's most recent rate case⁴ and as updated as discussed above. Refer to Exhibit B-3 for the cost allocation and rate of return support." The wording "and as updated as discussed above" refers to the language on pages 38 and 40 discussed in the paragraph above that

⁴ Docket No. E015/GR-23-155.

confirms the Company has updated the rate of return beginning January 1, 2026, to reflect the lower ROE as required by the Acquisition Docket.

Schedule 9 Revenues from MISO for the Duluth Loop Project

The Department requested that Minnesota Power explain in its reply comments whether it will receive MISO Schedule 9 revenues from MISO for the Duluth Loop Project once the project goes into service. Minnesota Power will not receive from MISO Schedule 9 revenues directly associated with other utilities' use of the Duluth Loop Project transmission lines once the Duluth Loop Project goes in-service. The Duluth Loop Project is located entirely within the Company's local balancing authority area and is also a baseline reliability project that does not qualify for cost allocation under the MISO Tariff. For this reason, no Schedule 9 revenue for the Duluth Loop Project will be reflected in the monthly Transmission Settlement files the Company receives from MISO.

Reporting of Net Credits Received from MISO

The Department recommended that the Commission require Minnesota Power to report in future TCR riders any net credits it receives from MISO for other utilities use of the Duluth Loop and HVDC Modernization projects once they are in-service, as well as any other applicable future projects. The Company has no objections to this reporting requirement.

Tariff Revision to Reflect Modifications

The Department recommended that the Commission require the Company to file updated proposed tariff revisions reflecting total capital spending at \$108,953,301. As demonstrated in the *Approved Estimated Cost Range in Nominal Dollars* section above, applying the Handy-Whitman factors to deflate the annual nominal dollars to 2021 dollars results in a total of \$52,871,314 which is well within the Commission's approved estimated capital costs range. Therefore, no modification to the 2026 TCR capital expenditures and the associated tariff sheet are required.

Conclusion

Minnesota Power appreciates the time and effort by the Department to review the Company's 2026 TCR Petition. Please contact me at lhoyum@mnpower.com with any questions related to this matter.

Yours truly,

A handwritten signature in cursive script that reads "Lori Hoyum".

Lori Hoyum
Rate Compliance Administrator

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

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

I, Amy M. Honkala of the City of Duluth, County of St. Louis, State of Minnesota, hereby certify that on the 3rd day of April, 2026, I electronically filed a true and correct copy of Minnesota Power's **Reply Comments in Docket No. E015/M-25-433** on the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The persons on eDocket's Official Service List for this Docket were served as requested.



Amy M. Honkala