



AN ALLETE COMPANY

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March 28, 2017

**VIA ELECTRONIC FILING**

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, MN 55101-2147

**RE: In the Matter of Minnesota Power's 2017 Capital Structure  
Petition  
Docket No. E015/S-17-142**

Dear Mr. Wolf:

Minnesota Power (the "Company") hereby electronically submits the attached Reply Comments in the above-referenced Docket. These comments provide a response to comments submitted by the Minnesota Department of Commerce, Division of Energy Resources ("Department"), on March 17, 2017. Minnesota Power agrees with the Department's analysis and recommendations and has provided additional information.

Please contact me at (218) 355-3586 with any questions related to this matter.

Respectfully yours,

A handwritten signature in black ink, appearing to read "Susan Ludwig".

Susan Ludwig



**Table 1. ALLETE 2016 Capital Expenditures**

<b>ALLETE, Inc.</b>						
<b>Consolidated Projected Capital Expenditures <sup>a</sup></b>						
<b>(\$, millions rounded)</b>						
				2016	2016	
				Projections <sup>b</sup>	Actuals	Variance
<b>Generation</b>						
Boswell 4 Environmental				22	10	(12)
Other <sup>c</sup>				37	27	(10)
<b>Generation Total</b>				<b>59</b>	<b>37</b>	<b>(22)</b>
<b>Transmission</b>						
Other Transmission Rider/Rider-Eligible <sup>d</sup>				25	11	(14)
Other <sup>e</sup>				41	29	(12)
<b>Transmission Total</b>				<b>66</b>	<b>40</b>	<b>(26)</b>
<b>Distribution/Customer Service/Other <sup>f</sup></b>				<b>41</b>	<b>45</b>	<b>4</b>
<b>Distribution Total</b>				<b>41</b>	<b>45</b>	<b>4</b>
<b>Total Regulated Utility Operations</b>				<b>166</b>	<b>122</b>	<b>(44)</b>
Non-Regulated Capital Expenditures <sup>g</sup>				<b>TRADE SECRET DATA EXCISED</b>		
<b>Total Capital Expenditures</b>						
<b>a</b>	Amounts include AFUDC					
<b>b</b>	2016 Projection amounts as reported in MP's 2016 Capital Structure (Docket No. E015/S-16-165)					
<b>c</b>	Includes costs related to hydro system flood repairs and ongoing generation upkeep					
<b>d</b>	Includes costs related to construction of the Great Northern Transmission Line					
<b>e</b>	Includes capital costs to comply with NERC reliability standards and ongoing transmission upkeep					
<b>f</b>	Includes capital expenditures at Superior Water, Light & Power and ongoing distribution upkeep					
<b>g</b>	Includes capital expenditures, acquisitions, and investments at ALLETE's affiliates					

**A. Generation**

As shown in Table 1, the 2016 actual expenditures for Generation were approximately \$22 million lower than projected. Of this amount, about \$12 million is related to the Boswell 4 Environmental project and is primarily due to project costs coming in lower than anticipated as contracts were finalized. Additionally, the budget amount included some contingency costs that

were not ultimately needed. Finally, the Company was able to benefit from sales tax credits in 2016, which offset some of the costs. As part of its normal business practices, Minnesota Power's Tax Department conducted a review of purchases and obtained a refund for eligible sales tax that had been paid by the Company. The sales tax credits were not included in the 2016 projections.

Other generation projects were about \$10 million lower than projected in 2016. This variance is primarily due to projects which were modified as the Company's 2015 Integrated Resource Plan ("IRP")<sup>1</sup> was underway. For example, when the 2016 budget was developed in the summer of 2015, it was assumed that the Company would perform an environmental upgrade and continue to operate Boswell Units 1 and 2 ("BEC1&2") as coal-fired units through 2024, consistent with its preferred plan in the IRP. Minnesota Power has since announced that it will retire BEC1&2 in 2018 and the environmental project will not be needed. Additionally, development costs related to a future gas resource were lower than budgeted. Finally, the Company received sales tax credits in 2016, as described above, which offset some expenditures and which had not been included in the projections.

## **B. Transmission**

Rider-eligible transmission projects were approximately \$14 million lower than budgeted in 2016. This was primarily due to a change in timing for expenditures related to the Company's Great Northern Transmission Line.

Other transmission projects were lower than projected, primarily due to reduced costs related to the Company's North American Electric Reliability Corporation ("NERC") reliability standards initiative. The Company was able to reduce costs by changing its contracts for external contractors (from "Time and Material" contracts to "Unit Price" contracts), by utilizing more internal crews (the budget assumed more work done by the contractor at a higher cost), by instituting changes to the construction process (such as assigning an inspector to accompany the contractor and help determine how much matting and clearing was required at each site), and by selling used matting materials and crediting the project costs accordingly. When the projections

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<sup>1</sup> Docket No. E015/RP-15-690.

were developed in 2015, there was no procedure in place to credit the project for sales of material.

**C. Non-Regulated**

As shown in Table 1, there is a substantial variance between projected and actual capital expenditures at ALLETE's non-regulated businesses. This variance is primarily due to a deferral of initiatives, including business acquisitions. The projected amount included potential business acquisitions that did not occur.

**III. CONCLUSION**

Minnesota Power appreciates the Department's thorough review of the 2017 Capital Structure Petition and has provided the requested information. The Company looks forward to a Commission hearing on the issue.

Dated: March 28, 2017

Yours Truly,



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