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March 27, 2019

**VIA E-FILING**

Daniel P. Wolf  
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 Minnesota Power Under Minnesota Statutes  
Section 216B.49 for Approval of its Capital Structure And Authorization to  
Issue Securities  
Docket No. E015/S-19-170  
REPLY COMMENTS**

Dear Mr. Wolf:

Minnesota Power submits these Reply Comments to the Minnesota Public Utilities Commission (“Commission”) in response to the Department of Commerce – Division of Energy Resources (“Department”) Initial Comments filed on March 19, 2019, in the above-referenced Docket.

Minnesota Power appreciates the time and work of the Department in the regulatory review process and looks forward to a Commission hearing on this Docket. Please contact me at (218) 355-3601 or [lhoyum@mnpower.com](mailto:lhoyum@mnpower.com) with any questions related to this matter.

Yours truly,

Lori Hoyum  
Policy Manager

LH:jn  
Attachment

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

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In the Matter of Minnesota Power’s Petition for Approval of its 2019 Capital Structure and Authorization to Issue Securities  
Docket No. E015/S-19-170  
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**I. INTRODUCTION**

On February 19, 2019, Minnesota Power (or “the Company”) filed a Petition with the Minnesota Public Utilities Commission (“Commission”) seeking approval for ALLETE, Inc.’s (“ALLETE’s”) 2019 consolidated capital structure and authorization to issue securities. On March 19, 2019, the Department of Commerce – Division of Energy Resources (“Department”) submitted comments in this Docket, recommending the Commission approve Minnesota Power’s Petition and requesting additional information from the Company. Minnesota Power agrees with the Department’s analysis and recommendations. Although not raised by the Department in Initial Comments, the Company supports continuation of the requirement to “keep the Commission informed in a timely manner of any rating agency action.”<sup>1</sup> In February 2018, the Company notified the Commission that S&P (Standard & Poor’s Financial Services LLC) and Moody’s (Moody’s Investor Service, Inc.) each revised its rating outlook for ALLETE to negative citing the Commission’s financial decisions on January 18, 2018, in Minnesota Power’s rate case in Docket No. E015/GR-16-664 as the primary factor, and noted the enactment of the Federal Tax Reform Act that is being addressed in Docket No. E,G999/CI-17-895.

Actions taken by the Company in 2018, and projected for 2019 and 2020 in the 2019 Consolidated Capital Structure Petition, reflect Minnesota Power’s efforts to strategically and thoughtfully preserve the long-term financial health of Minnesota Power and the broader ALLETE organization. The following section provides the requested additional information.

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<sup>1</sup> See Order Point B.2., of Minnesota Power’s September 5, 2018 Order for its 2018 Consolidated Capital Structure Petition (Docket No. E015/S-18-155).

## **II. Additional Information**

The Department identified two items for follow-up by Minnesota Power in its reply comments. First, the Department noted that there were significant differences between ALLETE's 2018 projected capital expenditures and its 2018 actual capital expenditures for regulated and nonregulated operations, and requested that the Company explain in more detail the reasons for these differences. Secondly, the Department requested Minnesota Power disclose any plans to extend its \$400 million Credit Agreement beyond November 1, 2019.

### **A. Capital Expenditures**

#### **1. Regulated Operations**

##### **Generation**

As described on page 2 of Exhibit L, the Company experienced variances due to cancelled or deferred projects, as well as reduced costs for base generation projects. Operation and maintenance work at Boswell Energy Center and with its reservoir system infrastructure was deferred due to flexibility in the timing of when that work could be performed. Additionally, the Company canceled or modified the scope of some exploratory wind, back-up generation and storage projects due to cost and other factors.

##### **Transmission**

As described on page 2 of Exhibit L, cost savings were attributed to the cold winter and a reduced amount of matting needed for constructing foundations and towers. Where possible, the Company reprioritized work to utilize internal crews, reviewed and modified the design of a line project, realized tax savings stemming from the 2017 Federal Tax Act, and secured price reductions on services and equipment. Some projects were deferred to 2019 due to permit and transformer-related delays. Deferral of progress payments also reduced 2018 actual investment. The Company did not experience any significant variances for the Great Northern Transmission Line (GNTL).

##### **Distribution**

In addition to the reasons described on page 2 of Exhibit L, installation of the meter data management system that will assist with the Company's AMI (advanced metering infrastructure) deployment is now scheduled to occur in 2019.

## **2. Non-regulated Operations**

As shown in Exhibit L, page 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 decision to defer was based on factors specific to the business case for each initiative.

Although not all projected capital expenditures occurred, significant initiatives and acquisitions did take place in 2018. On January 17, 2018, ALLETE Clean Energy announced 2018 will be an active construction year for the company with the purchase of federal renewable electricity PTC (production tax credit) and safe harbor-qualified wind turbines from GE Renewable Energy. The safe harbor turbines are part of ALLETE Clean Energy's multifaceted growth strategy to capitalize on the rapid growth of renewable energy while also answering the nation's call to transform its energy landscape. In March 2018, ALLETE Clean Energy announced it had acquired the South Peak project from Peak Clean Energy and will manage construction of the wind facility, scheduled to be online in late 2019. In December 2018, ALLETE Clean Energy announced it is refurbishing its 50 MW Condon Wind facility in Oregon, with the project scheduled to be completed in 2019. In addition to the Condon project, 385 turbines at the Lake Benton and Storm Lake sites are being refurbished to improve turbine performance and reliability, generate federal production tax credits at each site and support the renewal of power sales agreements at Storm Lake. Finally, construction by ALLETE Clean Energy on the 100-megawatt wind farm located north of Glen Ullin in North Dakota occurred in 2018. ALLETE Clean Energy will own and operate the wind farm that will supply electricity to Xcel Energy under a signed power purchase agreement.<sup>2</sup>

### **B. Credit Agreement**

The Department requested that Minnesota Power explain in its reply comments its plan, if any, to extend its credit agreement beyond November 1, 2019. As communicated on page 1 of Attachment B, ALLETE entered into the \$400 million revolving credit facility in November 2013. In November 2016, ALLETE extended the \$400 million credit facility one year to mature in November 2019. In November 2017, ALLETE extended the \$400 million credit facility again to

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<sup>2</sup> Order issued on September 1, 2017, in Docket No. E002/M-16-777, approving power purchase agreement.

mature in October 2020. In January 2019, ALLETE amended and restated the credit agreement which extended the maturity date of the facility to January 2024.

### III. CONCLUSION

Minnesota Power appreciates the Department's thorough review of the 2019 Capital Structure Petition and has provided the requested information. The projected 2019 and 2020 consolidated capital structure is a strategic and balanced approach to preserving the long-term financial health of Minnesota Power and the broader ALLETE organization. Under this structure, ALLETE's regulated and non-regulated operations will continue to serve as leaders in the transition of the nation's energy landscape. The Company looks forward to a Commission hearing on the issue.

Dated: March 27, 2019

Yours Truly,

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

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

AFFIDAVIT OF SERVICE VIA  
ELECTRONIC FILING

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Jodi Nash of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 27<sup>th</sup> day of March, 2019, she served Minnesota Power's Reply Comments in Docket No. E015/S-19-170 on the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The remaining parties on the Service List were served as noted.



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Jodi Nash

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St  Duluth, MN 558022191	Electronic Service	Yes	OFF_SL_18-155_S-18-155
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800  St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_18-155_S-18-155
Patrick	Cutshall	pcutshall@allete.com	Minnesota Power	30 West Superior Street  Duluth, MN 55802	Electronic Service	Yes	OFF_SL_18-155_S-18-155
Ian	Dobson	residential.utilities@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_18-155_S-18-155
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_18-155_S-18-155
Susan	Ludwig	sludwig@mnpower.com	Minnesota Power	30 West Superior Street  Duluth, MN 55802	Electronic Service	Yes	OFF_SL_18-155_S-18-155
Susan	Romans	sromans@allete.com	Minnesota Power	30 West Superior Street Legal Dept Duluth, MN 55802	Electronic Service	Yes	OFF_SL_18-155_S-18-155
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_18-155_S-18-155