

September 18, 2017

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket Nos. E015/PA-17-457, E015/PA-17-459, E015/PA-17-460, and E015/PA-17-461

Dear Mr. Wolf:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) in the following matters:

Minnesota Power's Petition for Approval of a Purchase Agreement between Minnesota Power and Lakehead Constructors (Docket No. E015/PA-17-457).

Minnesota Power's Petition for Approval of a Purchase Agreement between Minnesota Power and the United Way of Northeastern Minnesota, Inc. (Docket No. E015/PA-17-459)

Minnesota Power's Petition for Approval of a Purchase Agreement between Minnesota Power and Airmark, Inc. (d/b/a Nelson Wood Shims) (Docket No. E015/PA-17-460)

Minnesota Power's Petition for Approval of a Purchase Agreement between Minnesota Power and the State of Minnesota – Department of Military Affairs (Docket No. E015/PA-17-461)

The petitions were filed on June 1, 2017 by:

Christopher D. Anderson
Minnesota Power
30 West Superior Street
Duluth, MN 55802

The Department recommends **approval with modifications** as set forth in these comments of the four of the petitions. The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/lt
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket Nos. E015/PA-17-457, E015/PA-17-459, E015/PA-17-460, and E015/PA-17-461

I. INTRODUCTION

On June 1, 2017, Minnesota Power (MP or the Company) filed four petitions with the Minnesota Public Utilities Commission (Commission) for approval of purchase agreements with different counter-parties in Docket Nos. E015/PA-17-457, E015/PA-17-459, E015/PA-17-460 and E015/PA-17-461. MP requested that the Commission approve each of the four purchase agreements pursuant to Minn. Stat. § 216B.50 and Minn. Rules Part 7825.1600-1800 and find that each of the agreements is reasonable and consistent with the public interest.

The Company also requested a variance to Minn. Rules Part 7825.1400 and 7825.1800 regarding financial information in each of the four dockets to exempt MP from providing information required by this rule that the Company states is not directly relevant to determining the reasonableness of its proposals.

II. DETAILS OF THE AGREEMENTS

A. *DOCKET NO. E015/PA-17-457*

Minnesota Power is proposing to sell its Aurora Service Center (ASC) in this proceeding. The ASC is not currently used to provide support for the Company's provision of electric service. The building's purchaser is Lakehead Constructors. MP characterizes the sale of the building as a benefit for the Aurora economy by providing additional space for a key local employer. The Company also notes that approval of the sale would reduce MP's real estate costs.

As to the specifics of the proposed transaction, the proposed purchase price is \$375,000. The book value of the buildings and real estate is \$468,245.40 as of September 30, 2017. MP estimates it will incur a loss of \$93,250.40 as a result of the transaction.¹

The Company also states that it will not seek to recover this loss on the book value of the asset from ratepayers. Unfortunately, MP did not properly exclude the costs associated with the ASC

¹ See MP's response to Department Information Request (IR) No. 2 in Docket No. E015/PA-17-457 Attachment A.

from the revenue requirement developed in MP's current rate case, Docket No. E015/GR-16-664, (the 16-664 docket).

Specifically, those costs include: 1) the average annual accumulated depreciated balance for the asset in 2017 of \$473,847; 2) \$27,000 in annual operation and maintenance expenses and 3) \$18,000 in annual property taxes on a building that MP would no longer own if the proposed transaction is approved.²

B. DOCKET NO. E015/PA-17-459

Minnesota Power is proposing to sell its Chisholm Service Center (CSC) in this proceeding. The building's purchaser is United Way of Northeastern Minnesota, Inc. MP characterizes the sale of the building as a benefit for the Chisholm economy by providing additional space for a local charity. The Company also notes that approval of the sale would reduce MP's real estate costs.

The Company's proposed purchase price for the CSC is \$300,000. The book value of the buildings and real estate is \$704,533.92 as of September 30, 2017. MP estimates the loss on the sale to be \$404,533.92 as of September 30, 2017.³ MP states in the petition that it will not collect the loss on the sale of the property from ratepayers. Unfortunately, MP did not exclude the costs associated with this asset from in the revenue requirement developed in the 16-664 docket.

Specifically those costs include: 1) the average annual depreciated balance for the asset in 2017 of \$712,809; 2) \$15,000 in annual operations, and maintenance expenses, and 3) \$16,700 in annual property taxes on a building that MP would no longer own if the proposed transaction is approved.

C. DOCKET NO. E015/PA-17-460

Minnesota Power is proposing to sell some land and buildings associated with the Boswell Energy Center in this proceeding. The purchaser is Airmark, Inc. (d/b/a Nelson Wood Shims). The property is largely vacant land, with some buildings being used for cold storage. MP characterizes the sale of the land and buildings as a benefit for the local economy by providing additional space and land for a local business. The Company also notes that approval of the sale would reduce MP's real estate costs.

² See MP response to DOC IR #4 in Docket E015/PA-17-457 in Attachment A.

³ See MP response to DOC IR #9 in Docket E015/PA-17-459 in Attachment A.

As to the specifics of the proposed transaction, the proposed purchase price is \$247,000. The book value of the buildings and real estate is \$217,449.48 as of September 30, 2017. The Company estimates the gain on the sale to be \$29,550.52 also as of September 30, 2017. MP states in the petition that it will credit the gain on the sale of the property to ratepayers. However, that statement is not reassuring since the costs associated with this asset were not properly excluded and as a result have been included in the revenue requirement developed in MP's current rate case, the 16-664 docket.

Specifically, those costs include the average annual depreciated balance for the asset in 2017 of \$219,168 and \$4,300 in annual property taxes on property that MP would no longer own.⁴

D. DOCKET NO. E015/PA-17-461

Minnesota Power proposes to purchase its former Long Prairie Service Center (LPSC) in this proceeding. MP characterizes the purchase of the building from the State of Minnesota – Department of Military Affairs as a benefit for the Company in that it will serve to keep MP's costs down and provide an appropriate site for another essential public service (a National Guard armory).

As to the specifics of the proposed transaction, the proposed purchase price is \$270,000. The Company also included an appraisal that supports the purchase price as part of the petition.

The specifics of the current lease agreement between MP and the State of Minnesota for the facility are that MP's current annual lease payment for the portion of the building it occupies is \$57,540 per year plus approximately \$4,000 in annual property taxes and utilities costs (amount not specified).

MP's request regarding the recovery of the costs associated with this asset purchase is unusual. Even though the Company doesn't currently own the facility, the amount of the purchase price (\$270,000) was included in rate base in the Company's the 16-664 docket. Apparently for the purposes of calculating its revenue requirement for the rate case, MP assumed that the purchase would occur at the end of 2016 and included those costs in the 2017 budget and rate case test year. The Company also included the costs associated with a remodeling project (\$130,000) at this same site in 2017 in its rate case as well.

Table 1 summarizes MP's requests in the four dockets.

Table 1 – Summary of Proposed Transactions

⁴ See MP responses to DOC IRs #1, 2 and 4 in Docket E015/PA-17-460 in Attachment A.

Docket No.	Description	Location	Comments
E015/PA-17-457	Sale of Service Center to Lakehead Constructors Inc.	Aurora, Minnesota	Book value as of September 30, 2017: \$468,295.40 Sale price: \$375,000.00 Loss on the sale of \$93,295.40. Revenues, maintenance and depreciation expenses, taxes, and return on net plant included in current rate case.
E015/PA-17-459	Sale of Service Center to United Way of Northeastern Minnesota Inc.	Chisholm, Minnesota	Book value as of September 30, 2017 \$726,819.89 Sale price: \$300,000 Loss on the sale of approximately \$426,819.89. ⁵ Revenues, maintenance and depreciation expenses, taxes, and return on net plant included in current rate case.
E015/PA-17-460	Sale of Land and Buildings to Airmark Inc. (d/b/a Nelson Wood Shims)	Cohasset, Minnesota	Book value as of September 30, 2017: \$217,449.48. Sale price: \$247,000. Gain on the sale of \$29,550.52 ⁶ Maintenance and depreciation expenses, taxes, and return on net plant included in current rate case.
E015/PA-17-461	Purchase of Building from State of Minnesota – Department of Military Affairs	Long Prairie, Minnesota	Purchase price: \$270,000. Costs associated with some remodeling (roughly \$130,000 not yet incurred) also included in rate base, property taxes, utilities and return on net plant also included in current rate case. Rent expense was not included in current rate case.

The information included in Table 1 highlights MP's efforts to identify and include additions to rate base in its forecasted test year in the 16-664 docket. The Company retained in its revenue requirements the costs associated with the three assets it planned to sell and also included in its revenue requirements the costs associated with the asset it planned to purchase, as well as an improvement to the asset it planned to purchase. MP should have identified in its rate case that the Company intended to propose these sales and purchase, particularly since MP's rate

⁵ See MP's response to Department Information Request No. 9 in this docket.

⁶ See MP's response to Department Information Request No. 9 in this docket.

base amount in the rate case assumed that the purchase request above was already approved as of the beginning of the test year. From the Department's perspective, MP overstated its rate base in its rate case.

III. DEPARTMENT ANALYSIS

The Department's analysis focuses on the following:

- Statutes and Rules,
- Accounting Treatment, and
- Public Interest Test.

A. STATUTES AND RULES

1. Statutory Requirements

Minnesota Statutes section 216B.50, subd. 1, states,

No public utility shall sell, acquire, lease or rent any plant as an operating unit or system in this state for a total consideration in excess of \$100,000, or merge or consolidate with another public utility operating in this state without first being authorized so to do by the commission. Upon the filing of an application for the approval and consent of the commission thereto the commission shall investigate, with or without public hearing, and in case of a public hearing, upon such notice as the commission may require, and if it shall find that the proposed action is consistent with the public interest it shall give its consent and approval by order in writing. In reaching its determination the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.

The four proposed property transfers fall under the purview of the Commission, under Minnesota Statute 216B.50 and corresponding Minnesota Rules Part 7825.1600 and 1800. The Department discusses this issue further below.

2. Filing Requirements

7825.1800 Filing Requirements for Petitions to Acquire Property.

Petitions for approval to acquire property shall contain the following information, either in the petition or as exhibits:

- A. Petitions for approval of a merger or of a consolidation shall be accompanied by the following: the petition signed by all parties; all information, for each public utility, as required in parts 7825.1400 and 7825.1500; the detailed reasons of the petitions and each party for entering into the proposed transaction, and all facts warranting the same; the full terms and conditions of the proposed merger or consolidation.
- B. Petitions for approval of a transfer of property shall be accompanied by the following: all information as required in part 7825.1400, items A to J; the agreed upon purchase price and the terms for payment and other considerations.
- C. A description of the property involved in the transaction including any franchises, permits, or operative rights, and the original cost of such property, individually or by class, the depreciation and amortization reserves applicable to such property, individually or by class. If the original cost is unknown, an estimate shall be made of such cost. A detailed description of the method and all supporting documents used in such estimate shall be submitted.
- D. Other pertinent facts or additional information that the commission may require.

Minnesota Rule 7825.1800, subparts, B, C and D above specifically address the issue of transfer of property. The Department notes based on our review that Minnesota Power has provided the required information for Minnesota Rule 7825.1800 subparts B, C and D in its filing on pages 4 to 7 of the petition.

MP states in each of its petitions that Minn. Rules 7825.1800 require disclosure of additional information from Minn. Rules 7825.1400, which is pertinent to capital structure filings and for the purpose of investigating the issuance of securities. The Company states that it believes the information required under Minn. Rules 7825.1400 does not have any direct relevance nor application in ascertaining the reasonableness of each of the property transfers identified in these four dockets. Furthermore, MP states that the public interest would not be adversely affected and that no other applicable law or statute would be violated if the information is not provided in these dockets. Therefore, MP has not provided the information required under Minn. Rules 7825.1400 in its petitions. As such, the Company requests a variance under Minnesota Rules 7829.3200 to filing the information required by Minn. Rules 7825.1400 for purposes for each of its four petitions.

Minnesota Rule part 7829.3200 sets forth the criteria for evaluating a variance request:

1. Enforcement of the rule would impose an excessive burden upon the application or others affected by the rule.
2. Granting the variance would not adversely affect the public interest.
3. Granting the variance would not conflict with the standards imposed by law.

The Department agrees with MP that information required by Minnesota Rule 7825.1400 relates to capital structure filings and is not applicable to the four current petitions. Furthermore, the Department concludes that enforcement of the rule would impose an excessive burden since this information is not relevant. The Department also agrees that granting a variance in each proceeding would not adversely affect the public interest since review of this information is not needed to assess the proposals. Lastly, the Department is unaware of any legal standards that would be violated if the variances were granted. As a result, the Department recommends that the Commission grant the Company a waiver, if needed, regarding the filing requirements under Minnesota Rule 7825.1400 for each of the dockets reviewed in these comments.

B. FINANCIAL ANALYSIS

1. Accounting Entries

a. Docket No. E015/PA-17-457

The Department reviewed the accounting treatment the Company proposes in Exhibit B of the Company's petition. In addition, the Department requested additional information regarding the accounting treatment in Department Information Request No. 2. The Department considers MP's proposed journal entries to be appropriate.

b. Docket No. E015/PA-17-459

The Department reviewed the accounting treatment the Company proposes in Exhibit C of the Company's petition. In addition, the Department requested additional information regarding the accounting treatment in Department Information Request No. 7. The Department considers MP's proposed journal entries to be appropriate.

c. Docket No. E015/PA-17-460

The Department reviewed the accounting treatment the Company proposes in Exhibit E of the Company's petition. In addition, the Department requested additional information regarding the accounting treatment in Department Information Request No. 9. The Department considers MP's proposed journal entries to be appropriate.

d. Docket No. E015/PA-17-461

The Department reviewed the accounting treatment the Company proposes in Exhibit E of the Company's petition. In addition, the Department requested additional information regarding the accounting treatment in Department Information Request No. 9. The Department considers MP's proposed journal entries to be appropriate.

2. Incremental Effects on Company's Revenue Requirement

The Department asked a series of information requests in each of the four dockets in an attempt to determine the incremental effect of each proposed property transfer on the revenue requirement identified in the 16-664 docket. The Department's incremental analyses that use the information provided in those information request responses are included as Attachments B and C. The Department estimates that the incremental effect of the approval of the four property transfers would decrease MP's revenue requirement by approximately \$432,828 annually.⁷

MP proposes that the financial effects of these proposed transactions be deferred until the Company files its next rate case.

3. Cash-flows Associated with the Proposed Changes

The Department grouped the dockets in this analysis by type. The three asset sale dockets were included in one group (Docket Nos. E015/PA-17-457, E015/PA-17-459 and E015/PA-17-460). The asset purchase (Docket No. E015/PA-17-461) was analyzed separately.

The Department estimates that MP will receive \$922,000 in cash in 2017 once the three asset sale transactions are completed.⁸ Under the Company's proposal, ratepayers would receive no credit for this amount. Moreover, in subsequent years, ratepayers would have to pay MP for costs the Company would no longer be incurring for the ASC, CSC and the land near the Boswell

⁷ \$432,828 = \$399,462 from Attachment B Line 11 plus \$33,366 from Attachment C Line 13.

⁸ See Attachment B.

facility. That is, MP would receive annually an additional \$399,462 in cash (via base rates) for costs it would no longer be incurring. Assuming that MP doesn't file a subsequent rate case for 6 years, the present value of the cash-flows from ratepayers plus the proceeds that MP will collect from its asset sales is equal to approximately \$2.8 million.

The cash-flows associated with the purchase of the LPSC are a bit more involved. The Department's understanding is that for the purpose of the 16-664 docket, MP assumed that the proposed transaction closed at the end of 2016. As a result, the \$270,000 purchase price as well as a \$130,000 remodeling project were included in the test year in the 16-664 proceeding as of January 1, 2017. According to the Company's response to DOC IR #1 in that docket, the average plant balance as of 12/31/2016 and estimated 12/31/2017 was \$400,935. Of course, this asset has not yet been purchased, nor has the remodeling project been completed. Assuming a fairly aggressive procedural schedule, MP could perhaps complete this purchase by October 1, 2017.

According to ratemaking guidelines, only half of the purchase price should be included in rate base in the 16-664. The Department would also posit that only half of the remodeling costs should be included as well. The result of this exercise is the incremental amount of rate base that needs to be removed from MP's revenue requirement in the 16-664 docket is \$200,000. The only incremental impact on the remaining costs is depreciation from a ratemaking perspective. The Department assumes that MP can't depreciate an asset it doesn't own. Attachment C includes this analysis. The incremental annual impact of the change is \$33,288. Assuming MP doesn't file another rate case for 6 years, the present value of that annual change when combined with the cash expended to purchase the asset is (\$112,206).

If one adds this (\$112,206) to the present value estimate for the three asset sales, the net of the two estimates is \$2.7 million benefit that will accrue to shareholders.

The Department has not included any incremental effects related to state or federal income taxes in its analysis beyond the standard gross-up calculation. The Department assumes MP can and will provide its own version of the Department's analysis and that this analysis will address the income-tax related effects of the four proposed property transfers in its Reply Comments.

C. PUBLIC INTEREST TEST

MP provided the following support for the sale of its Aurora and Chisholm Service Centers and the land associated with the Boswell Plant (Docket Nos. E015/PA-17-457, E015/PA-17-459 and E015/PA-17-460). The asset sales will lower MP's real estate costs and will provide necessary space for local entities. The Company also asserts that it will not collect the loss on the asset

sales in Docket Nos. E015/PA-17-457 and E015/PA-17-459 from ratepayers. The Department's incremental analysis in Attachment B suggests that these statements are not accurate however, since MP is continuing to collect revenue requirements from ratepayers for assets that will be sold in 2017, during the 2017 test year.

The Company listed several operational benefits in support of its proposed transactions in Docket No. E015/PA-17-461. However, none of those benefits identified a public benefit other than a potential efficiency gain.

The Department doesn't dispute that the asset sales MP identified in Docket Nos. E015/PA-17-457, E015/PA-17-459 and E015/PA-17-460 will lower the Company's real estate costs. The Department is concerned however about MP's proposal to charge its ratepayers for those real estate costs the Company is no longer incurring. Such a proposal does not meet requirement of Minnesota Statute §216B.03 that "Every rate made, demanded, or received by any public utility ... shall be just and reasonable." The Department cannot agree to such an arrangement.

Consequently, and as an alternative to adjusting the revenue requirement calculated in MP's current rate case, the Department recommends that the Commission require MP to use deferred accounting and create a regulatory liability associated with the costs identified for the three dockets that pertain to selling assets. The regulatory liability will track those costs until the Company's subsequent rate case. At that time, the regulatory liability should be netted against the Company's revenue shortfall. The Department provides support for this position and the accompanying policy change below.

As to the proposed asset purchase discussed in Docket No. E015/PA-17-461, the Department recommends that the Commission also include the incremental costs associated with this transaction in the regulatory liability as well. Given this proposed modification, the Department cannot identify any issue associated with this transaction that contravenes the public interest. Consequently, the Department recommends approval with this modification.

1. Standard of Approval of Deferral Accounting

The Department requests deferral of the incremental:

- Other revenues, operations and maintenance expense, depreciation expense, property taxes and return on rate base grossed up for income taxes (all revenue requirements) for the transaction identified in Docket No. E015/PA-17-457, as well as the proceeds of the sale;
- Other revenues, operations and maintenance expense, depreciation expense, property taxes and return on rate base grossed up for income taxes (all revenue

- requirements) for the transaction identified in Docket No. E015/PA-17-459 as well as the proceeds of the sale;
- Depreciation expense, property tax expense and return on rate base (all revenue requirements) for the transaction identified in Docket No. E015/PA-17-460 as well as the proceeds of the sale, and
 - Depreciation expense and one half of the cost of purchasing and remodeling the LPSC in Docket No. E015/PA-17-461.

Attachments B and C provide the calculation the Department developed for this exercise.

The Department recommends that the Commission require MP to establish the regulatory liability to defer MP's incremental costs associated with these property sales and purchase. This action will prevent MP from receiving the benefit of charging customers rates that collect revenues that will be in excess of the Company's approved revenue requirement in its most recent general rate case after accounting for the aforementioned asset sales and correct the calculation associated with the asset purchase.⁹

The Department recognizes that this is the first time it has requested deferral accounting for incremental costs related to a series of changes relating to a utility revenue requirement approved in a recent rate case. However, the Department is not aware of an instance similar to this in which a utility made such a proposal to sell and purchase assets at the same time as it had a rate case pending and subsequent to the filing of Direct Testimony. Additionally, it is concerning the MP was inconsistent in the development of its revenue requirement related to these transactions by not excluding the three sales (which harmed ratepayers) and including the one purchase prematurely (which also harmed ratepayers). This type of timing of the filings (which is controlled by the utility) makes it difficult to incorporate the information into the pending rate case.

The Department notes that the Commission has historically used four criterion to evaluate a utility's request for deferred accounting:

1. Related to utility operations for which ratepayers have incurred costs or received benefits;
2. Significant in amount;
3. Unusual or extraordinary items;
4. Subject to review for reasonableness and prudence.

⁹ The Company should also include a carrying charge in this calculation to compensate ratepayers for the opportunity cost associated with this over-recovery. The carrying charge should be set equal to the Commission's annual customer deposit rate.

The Department will use these same criteria for its support of its position.

a. Related to utility operations for which ratepayers have incurred costs or received benefits

As noted previously, Minnesota Power included costs associated with the sale of the assets in Docket Nos. E015/PA-17-457, E015/PA-17-459 and E015/PA-17-460 in its test year revenue requirement in its concurrent rate case, Docket No. E015/GR-16-664. As a result, all of those costs are included in the Commission-approved revenue requirement and corresponding rates developed in the 16-664 Docket. If the Commission approves the asset sales in those three dockets without requiring the creation of a regulatory liability for the Company' incremental costs, MP's ratepayers will be paying for costs that the Company is no longer incurring. Such a development would violate the concept of cost-based rates.

As to the inclusion of the asset purchase, Docket No. E015/PA-17-461, the Department believes the incremental costs associated with this transaction should be included as a matter of policy. The proposed regulatory asset should reflect the identifiable incremental costs associated with all four dockets, not only those related to asset sales.¹⁰

b. Significant in amount

The Department supports the use of this criterion in the instance when a utility is requesting deferred accounting. The Commission is correct in establishing a relatively high bar as to the amount of the deferral from the utility's perspective. This criterion acts as a disincentive for the utility to request deferred accounting frequently in the hopes of shifting incremental operational or financial risks onto ratepayers.

The Department suggests that the Commission may want to use a less stringent criterion in instances in which a ratepayer advocate requests deferred accounting as a mechanism to track incremental costs that are no longer being incurred by the petitioning utility, particularly when a utility makes such proposals while it has a pending rate case. The Department's recommendation stems from the asymmetric information issue that colors all the Department's and Commission's interactions with utilities. The Department and Commission are presented only a portion of the information the utility has in its possession in any given proceeding. Thus, when a utility requests deferred accounting, it is difficult for the other parties and the

¹⁰ Attachment C contains the Department's incremental analysis for Docket No. E015/PA-17-461.

Commission to determine the validity of the utility's request from a ratepayer perspective given the utility's control of the information presented.

In contrast, the only way the Department can request deferred accounting is if it has somehow determined that such accounting treatment is necessary, such as in this case, where the utility would be recovering costs in its rates that it is no longer incurring. The Department is dependent on the utility, (MP in this instance) to supply this information. Given this difficulty of determining instances in which a utility is recovering costs it is no longer incurring, the Department thinks it appropriate to modify this criterion for deferred accounting requests from entities other than the utility. The Department believes that almost any amount that can be identified as eligible for deferred accounting to ratepayer's benefits should be approved by the Commission.

b. Unusual or extraordinary items

The Department supports the continued use of this criterion for the four dockets identified. The Department also notes that the four dockets identified for deferred accounting in this set of comments do represent unusual or extraordinary items. The Department is not aware of another utility proposing to sell and purchase real estate assets at the same time as it has a rate case. As for MP specifically, the Company has typically gone years between filing purchase or acquisition dockets related to real-estate holdings.

c. Subject to review for reasonableness and prudence

The Department also supports the continued use of this criterion for the four dockets identified. The Department would still review the costs included in the regulatory liability that MP will be required to provide in its next rate case to determine if they were appropriate and consistent with the information provided in the four dockets discussed in these comments.

IV. CONCLUSIONS AND RECOMMENDATIONS

The Department concludes that the transactions as currently structured and discussed in Dockets Nos. E015/PA-17-457, E015/PA-17-459, E015/PA-17-460 and E015/PA-17-461 fail the public interest test. If approved, MP ratepayers will be paying rates that are above MP's costs of providing service. This result is clearly not in the public interest.

The Department also concludes that a remedy which would require MP to initiate and maintain a regulatory asset (liability) that tracks the incremental costs the Company is no longer

Docket Nos. E015/PA-17-457, E015/PA-17-459, E015/PA-17-460, and E015/PA-17-461

Analyst Assigned: John Kundert

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incurring as a result of the Commission approval for the transactions discussed in Docket Nos. E015/PA-17-457, E015/PA-17-459, E015/PA-460 and E015/PA-461 is appropriate.

As a result, the Department recommends that the Commission approve the proposed transactions discussed in Docket Nos. E015/PA-17-457, E015/PA-17-459, E015/PA-17-460, and E015/PA-17-461 contingent on the Commission also adopting the Department's recommendation regarding the creation of a regulatory liability for the costs associated with the transactions.

The Department also recommends that the Commission require MP to file its final journal entries for these four dockets as compliance filings.

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Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 6/28/2017
Minnesota Power Response Due: 7/10/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-539-1740

Request Number: 1
Topic: Filing Classification
Reference(s): Page 1 of the filing

Request:

Please provide an explanation as to why the Company submitted the filing as a Miscellaneous filing as opposed to a Purchase/Acquisition filing?

RESPONSE:

The Petition was filed as a Miscellaneous filing by my mistake. It should've been filed as a Purchase/Acquisition petition.

We are not aware of any information missing from the petitions that would otherwise be required and would be relevant to the analysis required as to whether the purchase or sale is in the public interest.

However, if the Department review identifies an issue or raises a question regarding such information we would provide it formally or informally through the information request process, or in reply comment in response to such issues raised by the Department or other commenting party.

To be completed by responder

Response Date: July 12, 2017
Response by: Christopher D. Anderson
Email Address: canderson@allete.com
Phone Number: (218) 723-3961

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E017/PA-17-457
Page 2 of 10

Docket Number: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 6/28/2017
Minnesota Power Response Due: 7/10/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-539-1740

Request Number: 2
Topic: Financial
Reference(s): Exhibit B of the filing

Request:

Please provide a replacement Exhibit B that contains all the information regarding the Company's proposed journal entries regarding the sale of the Aurora Service Center Land and Building to Lakehead Constructors.

RESPONSE:

Please see the attached file DOC IR 2 – Exhibit B for a replacement Exhibit B.

To be completed by responder

Response Date: 7/12/2017
Response by: Debra Davey
Email Address: ddavey@allete.com
Phone Number: (218) 355-3714

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 6/28/2017
Minnesota Power Response Due: 7/10/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-539-1740

Request Number: 3
Topic: Financial
Reference(s): Page 4 of the filing

Request:

The Company states that the book value of the buildings and real estate is \$482,146.79 while the agreed-upon purchase price is \$375,000. MP also states that it will not collect from ratepayers the difference between the sale price and the book value of the service center. If ratepayers are not responsible for the lost on the sale of the Aurora service center, who will absorb those costs?

RESPONSE:

Minnesota Power will remove the book value of the buildings and real estate from rate base upon Commission approval of the sale. The Company would bear the cost (loss) without recovery from ratepayers.

To be completed by responder

Response Date: July 12, 2017
Response by: Christopher D. Anderson
Email Address: canderson@allete.com
Phone Number: (218) 723-3961

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 6/28/2017
Minnesota Power Response Due: 7/10/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-539-1740

Request Number: 4
Topic: Financial
Reference(s): Page 1 of the filing

Request:

Is this asset included in rate base in the Company's current general rate case proceeding? If so, please identify its location and the amount.

RESPONSE:

Yes, this asset is in rate base in the Company's current general rate case proceeding. It is in the total company average net plant balance of General Plant and the estimated amount is \$473,847. See below for details.

Average plant balance 12/31/16 and estimated 12/31/17	\$1,100,325
Average accumulated depreciation balance 12/31/16 and estimated 12/31/17	\$ (626,478)
Average net plant balance 12/31/16 and estimated 12/31/17	\$ 473,847

To be completed by responder

Response Date: 7/12/2017
Response by: Debra Davey
Email Address: ddavey@allete.com
Phone Number: (218) 355-3714

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 6/28/2017
Minnesota Power Response Due: 7/10/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-539-1740

Request Number: 5
Topic: Financial
Reference(s): Page 1 of the filing

Request:

Are expenses and revenues associated with this asset included in operations and maintenance expenses in the Company's current general rate case proceeding? If so, please identify those expenses or revenues location and their amounts.

RESPONSE:

There are expenses and revenues associated with this asset included in the Company's current general rate case proceeding. The expenses are in the total company operating and administrative expenses for general plant and miscellaneous (FERC account 935) and the estimated amount is \$27,000. The revenue is in the total company electric operating revenues for general plant (FERC account 456) and the estimated amount is \$25,200.

To be completed by responder

Response Date: 7/13/2017
Response by: Brian Bennett
Email Address: bbennett@allete.com
Phone Number: (218) 355-3215

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 6/28/2017
Minnesota Power Response Due: 7/10/2017
Type of Inquiry: General

Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-539-1740

Request Number: 6
Topic: Financial
Reference(s): Page 1 of the filing

Request:

Is the depreciation expense associated with this asset included as a cost in in the Company's current general rate case proceeding? If so, please identify this expense's location and the amount.

RESPONSE:

Yes, the depreciation expense associated with this asset is included as a cost in the Company's current general rate case proceeding. It is in the total company 2017 depreciation expense of General Plant and the estimated amount is \$22,980.

To be completed by responder

Response Date: 7/12/2017
Response by: Debra Davey
Email Address: ddavey@allete.com
Phone Number: (218) 355-3714

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 6/28/2017
Minnesota Power Response Due: 7/10/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-539-1740

Request Number: 7
Topic: Financial
Reference(s): Page 1 of the filing

Request:

Is the property tax expense associated with this asset included as a cost in in the Company's current general rate case proceeding? If so, please identify this expenses location and the amount.

RESPONSE:

Yes, property tax expense associated with this asset is included as a cost in the Company's current general rate case proceeding. Included on page 6 of the filing in Exhibit A is the amount of 2015 real estate taxes of \$19,836.00. The 2017 property tax expense was estimated to be \$18,000.00, and is included in distribution property taxes.

To be completed by responder

Response Date: July 12, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 6/28/2017
Minnesota Power Response Due: 7/10/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-539-1740

Request Number: 8
Topic: Financial
Reference(s): Page 1 of the filing

Request:

What would be the effect of the sale on MP's state and federal income taxes if the sale were approved?
Please identify the location and amounts involved.

How would MP propose to reflect those changes in the state and federal income tax calculations included in its general rate case proceeding?

RESPONSE:

If the sale is approved, Minnesota Power will incur a tax loss on the sale in the amount of \$101,136.00. (Sales price of \$375,000.00 less tax basis of \$476,136.00). As Minnesota Power has federal and state tax loss carryforwards, no tax payments will currently be refunded from this loss on sale, and the tax loss will increase the amount of our federal and state net operating loss carryforward deferred tax asset by \$41,840.00 (\$101,136 x 41.37%).

The sale was not reflected in the general rate case proceeding, and thus if this sale is approved, Minnesota Power would propose an adjustment to income tax expense as well as the deferred tax liability included in the calculation of rate base. The tax entries needed to record the impacts of the sale would be to record the tax benefit of the book loss on sale with the corresponding changes to accumulated deferred income taxes, consisting of an increase in the deferred tax asset for the tax loss carryforward, and an increase in the deferred tax liability related to depreciation of the asset.

To be completed by responder

Response Date: July 12, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

**Minnesota Department of Commerce
Division of Energy Resources
Information Request**

Docket Number: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 6/28/2017
Minnesota Power Response Due: 7/10/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-539-1740

Estimated Entries as of September 30, 2017

Entry #5 – To record the tax impacts on Sale of Assets by Minnesota Power to Lakehead Constructors

Debit Account 190 Accumulated Deferred Income Taxes	\$41,840.00
Credit Account 411.1 Provision for Deferred Income Taxes	\$38,596.00
Credit Account 282 Accumulated Deferred Income Taxes	\$3,244.00

To be completed by responder

Response Date: July 12, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Numbers: E015/PA-17-457 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 9
Topic: N/A
Reference(s): N/A

Request:

Has the Company performed an analysis that considers the incremental effects of the asset purchases and sales identified in these four dockets on its Test-year revenue requirement in its current rate case?

- A. If so, please provide a copy of that analysis.
- B. If not, please explain why the Company hasn't performed that analysis.
- C. If possible, please provide a copy of the analysis described above.

RESPONSE:

- A. No analysis has been performed.
- B. No analysis has been performed because the transactions have not yet been approved by the Commission. Because the record in the current rate case will close very soon, the effects of transactions will be incorporated into the Company's next rate case.
- C. No analysis has been performed.

To be completed by responder

Response Date: July 25, 2017
Response by: Christopher D. Anderson
Email Address: canderson@allete.com
Phone Number: (218) 723-3961

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power
Type of Inquiry: General Response Due: 7/28/2017
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 1
Topic: Financial
Reference(s): Page 4 of the filing

Request:

The Company states that the book value of the buildings and real estate is \$726,819.89 while the agreed-upon purchase price is \$300,000. MP also states that it will not collect from ratepayers the difference between the sale price and the book value of the service center. If ratepayers are not responsible for the lost on the sale of the Chisholm service center, who will absorb those costs?

RESPONSE:

Minnesota Power will remove the book value of the buildings and real estate from rate base upon Commission approval of the sale. The Company would bear the cost (loss) without recovery from ratepayers.

To be completed by responder

Response Date: 7/25/2017
Response by: Christopher D. Anderson
Email Address: canderson@allete.com
Phone Number: (218) 723-3961

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power
Type of Inquiry: General Response Due: 7/28/2017
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 2
Topic: Financial
Reference(s): Page 4 of the filing

Request:

Is this asset included in rate base in the Company's current general rate case proceeding? If so, please identify its location and the amount.

RESPONSE:

Yes, this asset is in rate base in the Company's current general rate case proceeding. It is in the total company average net plant balance of General Plant and the estimated amount is \$712,809. See below for details.

Average plant balance 12/31/16 and estimated 12/31/17	\$1,565,595
Average accumulated depreciation balance 12/31/16 and estimated 12/31/17	\$(852,786)
Average net plant balance 12/31/16 and estimated 12/31/17	\$712,809

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E015/PA-17-459
Page 3 of 11

Docket Number: E015/PA-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power
Type of Inquiry: General Response Due: 7/28/2017
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 3
Topic: Financial
Reference(s): Page 4 of the filing

Request:

Are expenses and revenues associated with this asset included in operations and maintenance expenses in the Company's current general rate case proceeding? If so, please identify those expenses or revenues location and their amounts.

RESPONSE:

There are expenses and revenues associated with this asset included in the Company's current general rate case proceeding. The expenses are in the total company operating and administrative expenses for general plant and miscellaneous (FERC account 935) and the estimated amount is \$15,000. The revenue is in the total company electric operating revenues for general plant (FERC account 456) and the estimated amount is \$636.

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E015/PA-17-459
Page 4 of 11

Docket Number: E015/PA-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power
Type of Inquiry: General Response Due: 7/28/2017
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 4
Topic: Financial
Reference(s): Page 4 of the filing

Request:

Is the depreciation expense associated with this asset included as a cost in in the Company's current general rate case proceeding? If so, please identify this expense's location and the amount.

RESPONSE:

Yes, the depreciation expense associated with this asset is included as a cost in the Company's current general rate case proceeding. It is in the total company 2017 depreciation expense of General Plant and the estimated amount is \$33,828.

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E015/PA-17-459
Page 5 of 11

Docket Number: E015/PA-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power
Type of Inquiry: General Response Due: 7/28/2017
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 5
Topic: Financial
Reference(s): Page 4 of the filing

Request:

Is the property tax expense associated with this asset included as a cost in in the Company's current general rate case proceeding? If so, please identify this expenses location and the amount.

RESPONSE:

Yes, the property tax expense associated with this asset is included as a cost in the Company's current general rate case proceeding. The 2017 property tax expense was estimated to be \$16,700.00, and is included in distribution property taxes.

To be completed by responder

Response Date: July 21, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E015/PA-17-459
Page 6 of 11

Docket Number: E015/PA-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power
Type of Inquiry: General Response Due: 7/28/2017
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 6
Topic: Financial
Reference(s): Page 4 of the filing

Request:

What would be the effect of the sale on MP's state and federal income taxes if the sale were approved?
Please identify the location and amounts involved.

RESPONSE:

If the sale was approved, Minnesota Power will incur a tax loss on the sale in the amount of \$192,725.00 (Sales price of \$300,000.00 less tax basis of \$492,725.00). As Minnesota Power has federal and state tax loss carryforwards, no tax payments will currently be refunded from this loss on sale, and the tax loss will increase the amount of our federal and state net operating loss carryforward deferred tax asset by \$79,730.33 (\$192,725.00 x 41.37%).

The tax entries needed to record the impacts of the sale would be to record the tax benefit of the book loss on sale with the corresponding changes to accumulated deferred income taxes, consisting of an increase in the deferred tax asset for the tax loss carryforward, and a decrease in the deferred tax liability related to the depreciation of the asset.

Estimated Entries as of September 30, 2017

Entry #5 – To record the tax impacts on Sale of Assets by Minnesota Power to United Way of Northeastern Minnesota, Inc.

Debit Account	190 Accumulated Deferred Income Taxes	\$	79,730.33
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To be completed by responder

Response Date: July 20, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

**Minnesota Department of Commerce
Division of Energy Resources
Information Request**

Docket Number: E015/PA-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power
Type of Inquiry: General Response Due: 7/28/2017
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Debit Account 282 Accumulated Deferred Income Taxes	\$	87,625.35
Credit Account 411.1 Provision for Deferred Income Taxes	\$	167,355.68

To be completed by responder

Response Date: July 20, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E015/PA-17-459
Page 8 of 11

Docket Number: E015/PA-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power
Type of Inquiry: General Response Due: 7/28/2017
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 7
Topic: Financial
Reference(s): Page 4 of the filing

Request:

How would MP propose to reflect those changes in the state and federal income tax calculations included in its general rate case proceeding?

RESPONSE:

The estimated tax entries for this sale are included in request number 6 of this docket. The sale was not reflected in the general rate case proceeding, and is not proposed to be included in this rate proceeding.

To be completed by responder

Response Date: July 20, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

**Minnesota Department of Commerce
Division of Energy Resources
Information Request**

Attachment A
Docket No. E015/PA-17-459
Page 9 of 11

Docket Number: E015/PA-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power
Type of Inquiry: General Response Due: 7/28/2017
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 8
Topic: N/A
Reference(s): N/A

Request:

Has the Company performed an analysis that considers the incremental effects of the asset purchases and sales identified in these four dockets on its Test-year revenue requirement in its current rate case?

- A. If so, please provide a copy of that analysis.
- B. If not, please explain why the Company hasn't performed that analysis.
- C. If possible, please provide a copy of the analysis described above.

RESPONSE:

- A. No analysis has been performed.
- B. No analysis has been performed because the transactions have not yet been approved by the Commission. Because the record in the current rate case will close very soon, the effects of transactions will be incorporated into the Company's next rate case.
- C. No analysis has been performed.

To be completed by responder

Response Date: July 25, 2017
Response by: Christopher D. Anderson
Email Address: canderson@allete.com
Phone Number: (218) 723-3961

**Minnesota Department of Commerce
Division of Energy Resources
Information Request**

Docket Number: E015/M-17-459 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 8/30/2017
Minnesota Power Response Due: 9/11/2017
Type of Inquiry: Financial
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 9
Topic: Financial
Reference(s): Exhibit C

Request:

Please provide a replacement Exhibit C that summarizes all the journal entries related to this proposed transaction.

RESPONSE:

Please see the attached file DOC PA-17-459 IR 9 Attach for an updated Exhibit C.

To be completed by responder

Response Date: August 30, 2017
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Minnesota Power
 Sale of Chisholm Service Center Land and Building to the United Way of Northeastern Minnesota, Inc.
 Summary of Estimated Entries as of September 30, 2017

Attachment A
 Docket No. E015/PA-17-459
 Page 10 of 11

Entry #1 - To record removal of the Original Installed Cost for Assets Sold by Minnesota Power to United Way of Northeastern Minnesota, Inc.

Debit Account 102 Electric Plant Purchased or Sold	1,565,595.38	
Credit Account 101 Electric Plant In-Service - Owned Account 3890		10,870.42
Credit Account 101 Electric Plant In-Service - Owned Account 3900		1,554,724.96

Entry #2 - To record the removal of the Estimated Accumulated Depreciation through 9/30/17 for Assets Sold by Minnesota Power to United Way of Northeastern Minnesota, Inc.

Debit Account 108 Electric Depreciation Reserve Account 3900	861,061.46	
Credit Account 102 Electric Plant Purchased or Sold		861,061.46

Entry #3 - To record cash received for Assets Sold by Minnesota Power to United Way of Northeastern Minnesota, Inc.

Debit Account 131 Cash	300,000.00	
Credit Account 102 Electric Plant Purchased or Sold		300,000.00

Entry #4 - To record Loss on Sale of Assets by Minnesota Power to United Way of Northeastern Minnesota, Inc. - using Estimated Accumulated Depreciation through 9/30/17

Debit Account 421.2 Loss on Disposition of Property	404,533.92	
Credit Account 102 Electric Plant Purchased or Sold		404,533.92

Entry #5 - To record the tax impacts on Sale of Assets by Minnesota Power to United Way of Northeastern Minnesota, Inc.

Debit Account 190 Accumulated Deferred Income Taxes	79,730.33	
Debit Account 282 Accumulated Deferred Income Taxes	87,625.35	
Credit Account 411.1 Provision for Deferred Income Taxes		167,355.68

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-460 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 1
Topic: Financial
Reference(s): Page 3 of the filing

Request:

The Company states that the agreed-upon purchase price is \$247,000.

Is this asset currently included in rate base in the Company's current general rate case proceeding? If so, please identify its location and amount.

RESPONSE:

Yes, this asset is in rate base in the Company's current general rate case proceeding. It is in the total company average net plant balance of General Plant and the estimated amount is \$219,168. See below for details.

Average plant balance 12/31/16 and estimated 12/31/17	\$283,184
Average accumulated depreciation balance 12/31/16 and estimated 12/31/17	\$(64,016)
Average net plant balance 12/31/16 and estimated 12/31/17	\$219,168

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

**Minnesota Department of Commerce
Division of Energy Resources
Information Request**

Attachment A
Docket No. E015/PA-17-460
Page 2 of 21

Docket Number: E015/PA-17-460 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General

Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 2
Topic: Financial
Reference(s): Page 4 of the filing

Request:

Are the expenses and or any revenues associated with this asset included in operations and maintenance expenses in the Company's current general rate case proceeding? If so, please identify those expenses or revenues location and their amounts.

RESPONSE:

No, there are not any expenses or revenues associated with this asset included in operations and maintenance expenses in the Company's current general rate case proceeding.

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E015/PA-17-460
Page 3 of 21

Docket Number: E015/PA-17-460 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 3
Topic: Financial
Reference(s): Page 3 of the filing

Request:

Is any depreciation expense associated with this asset included as a cost in in the Company's current general rate case proceeding? If so, please identify this expense's location and the amount.

RESPONSE:

Yes, the depreciation expense associated with this asset is included as a cost in the Company's current general rate case proceeding. It is in the total company 2017 depreciation expense of General Plant and the estimated amount is \$7,236.

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E015/PA-17-460
Page 4 of 21

Docket Number: E015/PA-17-460 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 4
Topic: Financial
Reference(s): Page 3 of the filing

Request:

Is any the property tax expense associated with this asset included as a cost in in the Company's current general rate case proceeding? If so, please identify this expenses location and the amount.

RESPONSE:

Yes, the property tax expense associated with this land and building is included as a cost in the Company's current general rate case proceeding. The 2017 property tax expense was estimated to be \$4,300.00, and is included in Boswell Energy Center property taxes.

To be completed by responder

Response Date: July 21, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-460 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 5
Topic: Financial
Reference(s): Page 3 of the filing

Request:

What would be the effect of the purchase on MP's state and federal income taxes if the sale were approved? Please identify the location and amounts involved.

RESPONSE:

If the sale was approved, Minnesota Power will incur a tax loss on the sale in the amount of \$12,226.00 (Sales price of \$247,000.00 less tax basis of \$259,226.00). As Minnesota Power has federal and state tax loss carryforwards, no tax payments will currently be refunded from this loss on sale, and the tax loss will increase the amount of our federal and state net operating loss carryforward deferred tax asset by \$5,057.90 ($\$12,226.00 \times 41.37\%$), offset by an increase in the deferred tax liability related to depreciation of the asset.

Estimated Entries as of September 30, 2017

Entry #5 – To record the tax impacts on Sale of Assets by Minnesota Power to Airmark, Inc.

Debit Account 190 Accumulated Deferred Income Taxes	\$5,057.90
Credit Account 282 Accumulated Deferred Income Taxes	\$5,057.90

To be completed by responder

Response Date: July 19, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-460 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 6
Topic: Financial
Reference(s): Page 3 of the filing

Request:

Would MP propose to reflect those changes in the state and federal income tax calculations included in its general rate case proceeding?

RESPONSE:

The estimated tax entries for this sale are included in request number 5 of this docket. The sale was not reflected in the general rate case proceeding and is not proposed to be included in the general rate case proceeding.

To be completed by responder

Response Date: July 19, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/PA-17-460 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 7
Topic: Financial
Reference(s): Page 3 of the filing

Request:

How did MP determine that \$247,000 was an appropriate price for the property given that the estimated market value was \$331,000?

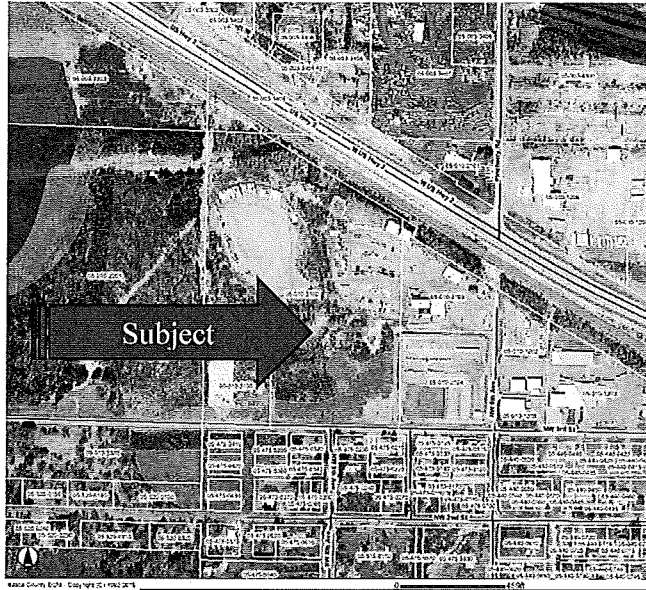
RESPONSE:

The \$247,000 amount was reached through negotiation with the Buyer. A market analysis was completed for two adjacent parcels that the Buyer had originally expressed an interest in purchasing (05-010-2103 and 05-010-2102). See attached DOC IR 7.1. Through negotiations, a purchase agreement was reached on only 05-010-2103 and a 1.2 acre strip (approximately) of 050-010-2102 (which totals 20.9 acres). Minnesota Power's interest is also in ensuring the Buyer can acquire the land at a reasonable price considering the Buyer's economic position, the current adjacent facilities of the Buyer, and the longer term benefit to regional economic development that the Buyer brings to the table.

To be completed by responder

Response Date: 7/27/2017
Response by: Christopher D. Anderson
Email Address: canderson@allete.com
Phone Number: (218) 723-3961

**Allete Inc./Minnesota Power Parcel-Summary of
Important Facts and Brokers Price Conclusions,
PID# 05-010-2102, 05-010-2103**



General

Subject: PID#s 05-010-2102, 05-010-2103
333 NW 6th Avenue
Cohasset, MN 55721

Owner: Allete/Minnesota Power

Legal Description: Part of NE NW Lyg South of GN R/W Less 416'
And that part of the E 416' of NE NW Lying South Hwy 2
S10, T55, R26

Date of Report: June 13, 2016

Intended Use: Determination of market price.

Intended Users: Allete Inc./MN Power

Assessed Value: Land Value \$126,400 Building \$ 10,400
Land Value \$ 30,100 Building 126,100

	<u>\$156,500</u>	+	<u>\$136,500</u>	= 293,000
Taxes:	\$8,644			

Sale History: The subject property has not sold in the last three years, according to public records.

Current Listing/Contract: The subject is currently not listed for sale or under a contract.

Property

Land Area: Lot size is 23.91 acres,
Total 23.91 Acres and 1,041,520 square feet

Buildings Area: **17,540 Square feet**

Zoning: **Light Industrial**
LI Light Industry District.
The purpose of this district is to promote and protect areas for new, modern, high performance, low impact industrial uses. They allow a full range of light industrial, fabricating, and manufacturing activities plus support services but allow only limited sales of goods and services directly to the public. These businesses have minimum adverse impacts such as noise, odor, vibration, electrical emissions and the like to adjacent areas.

Highest and Best Use: Commercial/ Public Development

Value Indications

Land Assessed Value: \$6,545.38/Acre or \$.15 per SF

Building Assessed: \$7.81 per SF

Land and Building: \$16.70 SF

Property Description

The following description is based on our property inspection, assessment records, and GIS aerial photo interpretation.

Site

Location:	The subject property is accessed off of NW 6 th Avenue and NW 3 rd Street in Cohasset, MN.
Current Use:	Storage/ Building and Land Use
Site Size:	Lot size is 23.9 acres,
Shape:	The site is roughly rectangular with road frontage
Frontage:	The subject property has frontage on NW 3 rd Street, Hwy 2 and NW 6 th Avenue.
Visibility:	Good for area.
Topography:	The subject has level topography at grade.
Soil Conditions:	The soil conditions observed at the subject property appear to be typical of the region and adequate to support an improvement.
Utilities:	Electricity: Minnesota Power Sewer: City of Cohasset Water: City of Cohasset Gas: City of Cohasset
Environmental Issues:	Were not assessed.
Site Comments:	The subject property is well suited for commercial development.
Market Condition:	Commercial activity is in a state of equilibrium.

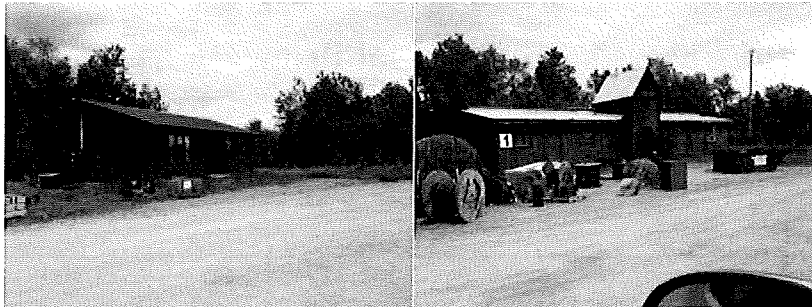
Improvement Description

Building:	Office Wood Frame Bldg.	840SF
	Metal Storage Bldg.	3,000SF
	Metal Pole Bldg.	2,100SF
	Metal Pole Bldg.	2,100SF
	Shop Building	<u>9,500SF</u>
	Total GBA Building	17,540SF

Yard Improvements:

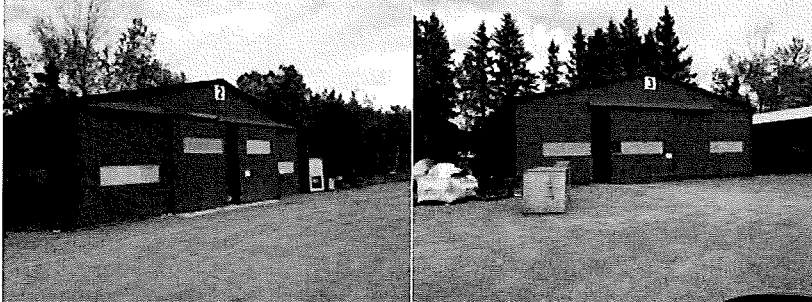
The subject improvements were constructed for current use.

Fencing 4,800 SF
Site Work/Gravel 3,500SF



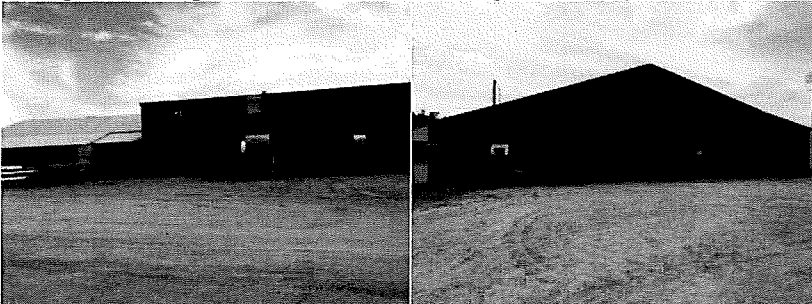
Office 850SF

Storage Building #1 3000 SF



Storage Building #2 2100 SF

Storage Building #3 2100SF



Shop Building #4

Storage Building #4 9500 SF

Depreciated Value of the Improvements

Marshall Swift

Improvement	Cost New	SF	Depreciation %	Depreciated \$
Office Wood Frame.	\$53.94	840	85%	\$ 6,796
Metal Storage Bldg.	\$ 28.40	3000	70%	\$25,560
Metal Pole Bldg.	\$23.14	2100	70%	\$ 9,710
Metal Pole Bldg.	\$28.72	2100	80%	\$12,602
Shop Building	\$48.72	9500	80%	<u>\$92,568</u>
Total Depreciated Value of Building Improvements				\$147,236

Yard Improvements

Site Work/ Gravel \$7.50 10,000 60% \$30,000

Fencing 2" #9 Wire	\$27.90	900'	60%	<u>\$10,400</u>
Total Depreciated Land Improvements				\$40,000

Total Depreciated Value of Improvements **\$187,236**

Land Grid Analysis Commercial Property

Comparable	Location	Zoning	Sale Price	SF/Acre	\$/SF	\$/Ac
C-1,05-441-0410	Cohasset Ind. Park	Industrial	\$52,500	214,750 SF 4.93 Ac	\$.24	\$10,650
C-2,05-482,0140	Commercial Dr., Cohasset	Hwy.Commercial	\$70,900	143,312 SF 3.29 Ac	\$.50	\$21,500
C-3,91-019-2204	Hwy 63, GR	Shoreland Industrial	\$83,000	362,781 SF 8.32 Ac	\$.23	\$9,972
C-4,91-433-0270	SE 6 th Ave. Ind.Pk, GR	Industrial Pk.	\$41,900	72,278 SF 1.66	\$.58	\$25,240
C-5,91-033-1305	SE 7 th Av. GR	Industrial Pk.	\$127,500	437,115 SF 10.03 Ac.	\$.29	\$12,711
C-6	Glenwood Dr., LA Prairie	Commercial	\$58,000	420,395 SF 9.65 Ac	\$.14	\$6,010
C-7						
Pending 91-020-2311	NW 3 rd ST Grand Rapids	Industrial	\$152,242	507,474 SF 11.65 Ac	\$.30	\$13,067
					<4 Ac \$.50 >4 AC \$.25	<4Ac \$23K >4Ac \$11K

Reconciliation of Market Price, Land

My analysis of the commercial comparable land sales grid indicates a market price in the \$.14 to \$.30 per square foot range for parcels that are greater than 4 acres in size. When analyzing the parcels that are less than 4 acres in size the market indicates a market price range of \$.50 to \$.58 per square foot.

As is Fair Market Price

Land Less Than 4 Acres \$.50 SF or \$23,000 per Acre
Land Greater Than 4 Ac \$.25 SF or \$11,000 per Acre

**Reconciliation Market Price
Cost Approach**

Our analysis of the commercial land comparable sales indicates a market price in the \$.14 per SF to \$.58 per Square Foot range for parcels that are located within the City of Grand Rapids and the City Cohasset, MN. Parcels of larger size and a location off the main corridors trend towards a market price of \$.14 to .29 per SF while parcels of smaller size trend towards a market price of \$.50 SF to \$.58 per SF. After reviewing the comparable sales and comparing with the subject property and current market conditions a \$.18 per square foot price for the subject property seems reasonable.

As is Fair Market Price Cost Approach
\$.18 per SF Land x 1,041,520SF=\$166,643
\$187,236 Depreciated Value of Improvements

354,000.00 (Rounded)

Sales Comparison Approach

Sales are summarized as follows:

Comparable Land and Building Sale Summary										
Sale #	Location	Zoning	Tax ID#	Seller To Buyer	Date of Sale	SF	Sale Price	SF/Bldg	Comments	
1.00	Deer River	Cm	29-118-3101	GRSB to Fox	201606	32,800	\$195,000.00	\$5.95 SF	56.3 Acres	
2.00	Hibbing	Cm	1400270-01136	LN RE to CIL	201006	23,384	\$350,000.00	\$15.00 SF	3.44 Acres	
3.00	Hibbing	Cm	140-0207-0030	Superior to Fena	201405	28,810	\$385,000.00	\$13.00 SF	10.23Acres	
4.00	Grand Rapids	Ind	91-020-2311	Blandin to GREDA	201608	17,426	\$361,000.00	\$20.72 SF	11.65 Acres	
Average						25,605 SF		\$13.67 SF		

Sale 1 and 2 are Pending

**Reconciliation of Market Price
Sales Comparison Approach**

The sales occurred from 2010 to 2016 in a period of a stabilized market. No adjustments for changes in market conditions are indicated over the period 2010 to 2016.

The subject property has a combined improvement of 17,540 square feet and is most similar in size to comparable sale 4 along with similar effective age (buildings), zoning and location. The land component is larger than the subject but has similar net useable square footage when accounting for the delineation of wetlands for the subject. Sale 1 is inferior to the subject in its rural location and excess building square footage. Sale 2 and Sale 3 are considered inferior to the subject because of useable land and location.

After consideration and adjustment of the comparable building and land sales the subject property, based on a gross building (GBA) area of 17,540 square feet, indicates a market price of \$18.00SF.

AS Is Fair Market Price Sales Comparison Approach

\$18.00SF X 17,540SF

\$316,000 Rounded

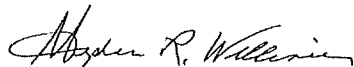
Final Market Price Determination

40% Weighted to Cost Approach

60% Weighted to Sales Comparison Approach

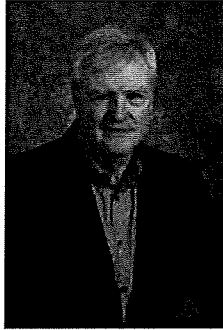
\$331,000 Rounded

Disclaimer: This document is not an appraisal as defined by USPAP (Uniform Standards of Professional Appraisal Practice). It is not to be construed as an appraisal and may not be used as such for any such purpose.



Wellson Group, Inc.
President





WELLSON GROUP, INC.
a land and forest resource company

Stephen R. Welliver, President

Wellson Group Inc., 215 NW 1st Avenue, Grand Rapids, MN 55744

218-340-6790

swelliver@wellsongroup.com

Areas of Expertise

Real Estate - Consulting, Brokerage, Title Examination and Appraisal/Valuation
Forestry - Consulting, Valuation, Harvesting Guidelines/Methods, Procurement and Silviculture
Business - Finance, Valuation and Tax Law
Banking - Mortgage Banking, Commercial Loan Analysis and Audit Review.
Utility Rights-of-Way - Vegetation Management, Acquisition, Timber and Land Valuation
Machinery and Equipment- Valuation and Disposition
Civic - Leadership, Strategic Planning, Federal and State Project Funding

Positions Held (Business)

President/Owner, Wellson Group, Inc., Grand Rapids, MN, 1999-Present. Provides Real Estate, Business and Forestry consulting services to private and public entities. Provides forestry, vegetation management, timber and land and business appraisal services to the utility industry. Provides appraisal services for real estate, banking, timber and machinery and equipment industry.

President/Owner, Lake States Tree Service, Inc., Grand Rapids, MN, and Gaylord, MI., 1978-1998. A 230 employee based company providing vegetation contracting and consulting services to forty one electrical and gas utility companies located in Minnesota, North and South Dakota, Wisconsin, Michigan, Indiana, Missouri, Arkansas and Louisiana.

President/Owner, JSD Forest Enterprises, Grand Rapids, MN., 1982-1992. Provided mechanical/chemical and silvicultural contracting services to the forest industry. Produced 10,000 -15,000 cords annually of mixed species wood to the forest paper and sawmill industry.

Branch Manager, Minnesota Federal Savings and Loan, St. Paul, MN., 1974-1977. Managed 50 million loan portfolio and 30 million time deposits. Valuation and management of commercial service corporation.

Positions Held (Civic)

President, Grand Rapids Public Utilities Commission, Grand Rapids, MN., 1999-Present. Provides electricity, sewer and water to the City of Grand Rapids and surrounding area. Recently completed the largest wastewater treatment (\$35m) plant north of the St. Paul/ Minneapolis area.

Director, Grand Rapids State Bank, Grand Rapids, MN., 1996-Present. 250 Million Asset Bank serving northern Minnesota. Provides financing to large timber harvesting contractors working in the forest products industry in northern Minnesota. Currently serving on the loan, audit and valuation committee.

President and Board of Directors, Minnesota Forestry Association, 1984-1987, 2000-2004, State wide organization promoting forest ownership which provides education and resources to forest landowners.

Education and Licenses

BA, Business Finance, University of St. Thomas, St. Paul, MN
Forestry Technician, University of Minnesota, Minneapolis, MN
Minnesota Real Estate Brokers License #20388068
Minnesota Appraisers License #40033649
Minnesota Auctioneers License #31-12-001
Minnesota Department of Natural Resources Forest Stewardship Plan Preparer #1781
Master Certified Machinery and Equipment Appraiser
Certified Business Appraiser
Senior Business Analyst
Associate Member, American Society of Cost Segregation Professionals

Professional Organizations

Society of American Foresters
Minnesota Forestry Association
Society of Arboriculture
Minnesota Chamber of Commerce
Ruffed Grouse Society, Sponsor
Appraisal Institute
Realtors Land Institute, ALC Candidate
National Association of Realtors
National Association of Certified Valuators and Analysts
Consultants Training Institute
International Society of Business Analysts
American Society of Cost Segregation Professionals

Current and Recent Projects

Border Foods, Minnesota, Wisconsin, South Dakota.

Services Performed: Site Selection for new construction on nine various sites in Midwest. Valuation and cost segregation work on new construction and extensive remodels. Consulting on real estate and building construction.

Contact: Barb Schneider, Director of Real Estate 763-489-0794

City of Grand Rapids, MN, Economic Development

Services Performed: Negotiated land purchase for Commercial Airline Facility. Valuation of land and building exchange with major industrial customer. Real Estate Consulting Services

Contacts: Rob Maettei, Director of Economic Development, 218-326-7622

Magnetation, State of Minnesota, Polymet and Blandin Paper Company. 3,000 acre land exchange project in Itasca and St. Louis counties.

Services Performed: Real estate and timber valuation and 1031 exchange with Conservation Easement transfer.

Contact: Cheryl Adams, Blandin Land Manager 218-327-6482

Business and Asset Valuation.

Services Performed: Complete business appraisal of Natural Gas entity including assets, cash flow analysis and current debt structure.

Contact: Al Leistman, Grand Rapids State Bank Vice President

CapX2020 Wind Energy Project. 87 Mile Transmission Corridor, New Construction, Bemidji-Grand Rapids 2010-Present.

Services Performed: Timber and Landscape Tree Appraisal and easement acquisition of landowner parcels, Sales Data Base Development for acquisition, Real Estate Appraisals for Condemnation Proceedings.

Contact: Jim Metcalf, Senior Right-of Way Specialist, Ottertail Power Company, 218-770-6858

Blandin Paper Company. 12,000 Acre Land Disposition and 1031 Exchange Project.

Services Performed: 2006-2010 Brokering 12,000 acres of identified land for exchange of timberland, land and timber analysis, brokerage and accounting and title closing services.

Contacts: Cheryl Adams, Blandin Land Manager, 218-327-6482

Blandin Paper Company/State of Minnesota. 185,000 Acre Conservation Easement.

Services Performed: Highest and best use analysis, appraisal review, title examination contracting, title exception review, analysis and finalization, easement descriptions and recording. Worked with the Conservation Fund and Minnesota Attorney General's Office. Consulting Services for possible sale after conservation easement (2009-2011)

Contacts: Joseph Maher, Blandin Vice President, Mill Manager, 218-327-6398

Cheryl Adams, Blandin Land Manager and Project Manager, 218-327-6482

Ann Smith, I. County Abstract, 218-326-9601
Richard Petersen, MN DNR Forest Legacy Coordinator, 507-333-2012
Dennis O'Toole, Attorney for Blandin Paper, 218-326-9603

Forest Capital Partners, Timber REIT (Boise Cascade) Appraisal and Brokerage Services
2006-2012.

Services Performed: Land Appraisal, easement descriptions, and brokerage services on 350,000
acre ownership. Innovated a land auction service to sell over 12,000 acres of selected tracts
2005-2010. Hold real estate license for current land manager.

Contacts: Scott Jones, Principal, 1 Financial Center, Boston, MA 617-832-2925.

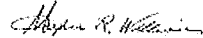
Itasca Development Corporation: Appraisal and Land Division Analysis 2010-2012.

Services Performed: Appraisal of Eco Industrial Park and land division analysis for disposition.
Former Ainsworth Plant.

Contacts: Jeff Borling, 218-326-9411

I have extensive experience in real estate brokerage, real estate/ business appraisal, asset
valuation and title examination work. I represent industry and family trusts in the acquisition
and disposition of real estate holdings throughout Minnesota. In addition, I work with attorneys,
accountants and lending institutions providing real estate services to corporations and family
estate planning. I have represented federal, state, county and local government agencies in real
estate and forestry projects.

From 1999 until present I have performed timber and land appraisals, damage assessment,
easement descriptions and appraisal, timber procurement, chemical consultation, and expert
witness testimony on utility right of way and forestry issues for public and private agencies.



Stephen R. Welliver

References

Joseph Maher, Vice President Manager, UPM Kymenne/Blandin, US Operations
218-327-6398

Cheryl Adams, Land Manager, UPM Kymenne/Blandin, US Operations
218-327-6482

John Guenther, Minnesota Department of Natural Resources, Former NE Region 3 Manager
218-259-3380

Bob Lessard, Minnesota Department of Natural Resources, Northern Assistant to DNR
Commissioner for Community Outreach. Former State Senator District 3.
651-730-6738

Tom Duffus, Conservation Fund, Midwest Region Director
218-722-2398

Delbert Hosemann, Secretary of State, State Mississippi, 601-624-33343.

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E015/PA-17-460
Page 19 of 21

Docket Number: E015/PA-17-460 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 8
Topic: N/A
Reference(s): N/A

Request:

Has the Company performed an analysis that considers the incremental effects of the asset purchases and sales identified in these four dockets on its Test-year revenue requirement in its current rate case?

- A. If so, please provide a copy of that analysis.
- B. If not, please explain why the Company hasn't performed that analysis.
- C. If possible, please provide a copy of the analysis described above.

RESPONSE:

- A. No analysis has been performed.
- B. No analysis has been performed because the transactions have not yet been approved by the Commission. Because the record in the current rate case will close very soon, the effects of transactions will be incorporated into the Company's next rate case.
- C. No analysis has been performed.

To be completed by responder

Response Date: July 25, 2017
Response by: Christopher D. Anderson
Email Address: canderson@allete.com
Phone Number: (218) 723-3961

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/M-17-460 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 8/30/2017
Minnesota Power Response Due: 9/11/2017
Type of Inquiry: Financial

Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 9
Topic: Financial
Reference(s): Exhibit E

Request:

Please provide a replacement Exhibit E that summarizes all the journal entries related to this proposed transaction.

RESPONSE:

Please see the attached file DOC PA-17-460 IR 9 Attach for an updated Exhibit E.

To be completed by responder

Response Date: August 31, 2017
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

EXHIBIT E

**Minnesota Power
Sale of Land and Building to Airmark, Inc.
Summary of Estimated Entries as of September 30, 2017**

Entry #1 - To record removal of the Original Installed Cost for Assets Sold by Minnesota Power to Airmark, Inc.

Debit Account 102 Electric Plant Purchased or Sold	283,183.89	
Credit Account 101 Electric Plant In-Service - Owned Account 3100		132,100.96
Credit Account 101 Electric Plant In-Service - Owned Account 3110		151,082.93

Entry #2 - To record the removal of the Estimated Accumulated Depreciation through 9/30/17 for Assets Sold by Minnesota Power to Airmark, Inc.

Debit Account 108 Electric Depreciation Reserve Account 3110	65,734.41	
Credit Account 102 Electric Plant Purchased or Sold		65,734.41

Entry #3 - To record cash received for Assets Sold by Minnesota Power to Airmark, Inc.

Debit Account 131 Cash	247,000.00	
Credit Account 102 Electric Plant Purchased or Sold		247,000.00

Entry #4 - To record Gain on Sale of Assets by Minnesota Power to Airmark, Inc. to Account 108 Electric Depreciation Reserve - using Estimated Accumulated Deprecaiton through 9/30/17

Debit Account 102 Electric Plant Purchased or Sold	29,550.52	
Credit Account 108 Electric Depreciation Reserve Account 3110		29,550.52

Entry #5 - To record the tax impacts on Sale of Assets by Minnesota Power to Airmark, Inc.

Debit Account 190 Accumulated Deferred Income Taxes	5,057.90	
Credit Account 282 Accumulated Deferred Income Taxes		5,057.90

Minnesota Department of Commerce
Division of Energy Resources
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Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 1
Topic: Financial
Reference(s): Page 4 of the filing

Request:

The Company states that the agreed-upon purchase price is \$270,000.

- a. Is this asset currently included in rate base in the Company's current general rate case proceeding? If so, please identify its location and amount.
- b. If the response to (a) is negative, is the Company proposing to include this asset included in rate base in the Company's current general rate case proceeding? If so, please identify its prospective location and the amount.

RESPONSE:

- a. Yes, this asset is in rate base in the Company's current general rate case proceeding. It is in the total company average net plant balance of General Plant and the estimated amount is \$394,071. See below for details.

Average plant balance 12/31/16 and estimated 12/31/17	\$400,935
Average accumulated depreciation balance 12/31/16 and estimated 12/31/17	\$(6,864)
Average net plant balance 12/31/16 and estimated 12/31/17	\$394,071

- b. N/A

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Minnesota Department of Commerce
Division of Energy Resources
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Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 2
Topic: Financial
Reference(s): Page 4 of the filing

Request:

- a. Is the \$57,540 in rent expense discussed in the filing included in operations and maintenance expenses in the Company's current general rate case proceeding? If so, please identify those expenses or revenues location and their amounts.
- b. Is the Company proposing to remove that expense if the Commission were to approve the proposed purchase?
- c. Are there any expenses and or any revenues beyond the \$57,540 in rent expense associated with this asset included in operations and maintenance expenses in the Company's current general rate case proceeding? If so, please identify those expenses or revenues location and their amounts.
- d. Is the Company proposing to remove the forecasted expenses and revenues associated with this asset in the Company's current general rate case proceeding? If so, please identify those prospective revenues and expenses location(s) and the amount(s).
- e. Is the Company proposing to include any expenses and/or revenues to its test-year revenue requirement if the Commission were to approve the proposed purchase prior to making a final decision in that proceeding? If so, please identify those prospective revenues and expenses location(s) and the amount(s).

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

**Minnesota Department of Commerce
Division of Energy Resources
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Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

RESPONSE:

- a. No
- b. No
- c. No
- d. No
- e. No, other than depreciation expense addressed in IR 3.

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Minnesota Department of Commerce
Division of Energy Resources
Information Request

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Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 3
Topic: Financial
Reference(s): Page 4 of the filing

Request:

- a. Is any depreciation expense associated with this asset included as a cost in in the Company's current general rate case proceeding? If so, please identify this expense's location and the amount.
- b. If the response to (a) is negative, is the Company proposing to include the forecasted depreciation expense with this asset in the Company's current general rate case proceeding? If so, please identify the depreciation expense location and the amount.

RESPONSE:

- a. Yes, the depreciation expense associated with this asset is included as a cost in the Company's current general rate case proceeding. It is in the total company 2017 depreciation expense of General Plant and the estimated amount is \$12,672.
- b. N/A

To be completed by responder

Response Date: 7-25-17
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

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Phone Number(s): 651.539.1740

Request Number: 4
Topic: Financial
Reference(s): Page 4 of the filing

Request:

- a. Is any property tax expense associated with this asset included as a cost in in the Company's current general rate case proceeding? If so, please identify this expenses location and the amount.
- b. If the response to (a) is negative, is the Company proposing to include the forecasted property tax expense with this asset in the Company's current general rate case proceeding? If so, please identify the location and the amount of the expense.

RESPONSE:

- a. Yes, currently Minnesota Power leases the office building, garage and lot. Under the lease, Minnesota Power pays the annual property taxes of approximately \$4,000, which is included in our distribution property tax expense.
- b. Not applicable, as already paying the property taxes.

To be completed by responder

Response Date: July 25, 2017
Response by: Jamie Jago
Email Address: jjago@allete.com
Phone Number: 218-355-3837

**Minnesota Department of Commerce
Division of Energy Resources
Information Request**

Attachment A
Docket No. E015/PA-17-461
Page 6 of 9

Docket Number: E015/PA-17-461 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General

Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 5
Topic: Financial
Reference(s): Page 4 of the filing

Request:

- a. What would be the effect of the purchase on MP's state and federal income taxes if the purchase were approved? Please identify the location and amounts involved.

RESPONSE:

At the end of the first year of ownership, there would be a small tax impact resulting from differences in book and tax depreciation. However, the purchase itself would have no immediate tax impact.

To be completed by responder

Response Date: July 25, 2017
Response by: Tony Niksich
Email Address: aniksich@allete.com
Phone Number: 218-355-3146

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Attachment A
Docket No. E015/PA-17-461
Page 7 of 9

Docket Number: E015/PA-17-461 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 7/18/2017
Minnesota Power Response Due: 7/28/2017
Type of Inquiry: General
Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 6
Topic: N/A
Reference(s): N/A

Request:

Has the Company performed an analysis that considers the incremental effects of the asset purchases and sales identified in these four dockets on its Test-year revenue requirement in its current rate case?

- a. If so, please provide a copy of that analysis.
- b. If not, please explain why the Company hasn't performed that analysis.
- c. If possible, please provide a copy of the analysis described above.

RESPONSE:

- A. No analysis has been performed.
- B. No analysis has been performed because the transactions have not yet been approved by the Commission. Because the record in the current rate case will close very soon, the effects of transactions will be incorporated into the Company's next rate case.
- C. No analysis has been performed.

To be completed by responder

Response Date: July 25, 2017
Response by: Christopher D. Anderson
Email Address: canderson@allete.com
Phone Number: (218) 723-3961

**Minnesota Department of Commerce
Division of Energy Resources
Information Request**

Docket Number: E015/M-17-461 Nonpublic Public
Requested From: Christopher Anderson Date of Request: 8/31/2017
Minnesota Power Response Due: 9/11/2017
Type of Inquiry: Financial

Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

Request Number: 7
Topic: Financial
Reference(s): Exhibit E

Request:

The original Exhibit E included with the filing listed 2 journal entries – Entry #1 and Entry #3.

Please identify the components of Entry #2.

Please also provide a replacement Exhibit E that summarizes all the journal entries related to this proposed transaction.

RESPONSE:

On the original Exhibit E Entry #3 should have been labeled Entry #2.

Please see the attached file DOC PA-17-461 IR 7 Attach for an updated Exhibit E.

To be completed by responder

Response Date: September 1, 2017
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

EXHIBIT E

Minnesota Power

Purchase of Long Prairie Service Center from the State of Minnesota, Department of Military Affairs

Summary of Entries - assuming a purchase price of \$270,000

Entry #1 - To record the Assets Purchased by Minnesota Power from State of Minnesota, Department of Military Affairs

Debit Account 101 Electric Plant In-Service - Owned	Account 3890	23,510.00	
Debit Account 101 Electric Plant In-Service - Owned	Account 3900	246,490.00	
	Credit Account 102 Electric Plant Purchased or Sold		270,000.00

Entry #2 - To record payment for Assets Purchased by Minnesota Power from State of Minnesota, Department of Military Affairs

Debit Account 102 Electric Plant Purchased or Sold		270,000.00	
	Credit Account 131 Cash		270,000.00

Incremental Cost Analysis for Dockets 457, 459, 460 and 461

Asset Sales -

Line No.	Description	Docket No.			Notes			Total
		17-457	17-459	17-460	17-457	17-459	17-460	
1.	Other Revenues	(\$25,200)	(\$636)	\$0	[1]	[8]	[13]	(\$25,836)
2.	Maintenance Expenses	\$27,000	\$15,000	\$0	[2]	[9]	[14]	\$42,000
3.	Depreciation	\$22,980	\$33,828	\$7,236	[3]	[10]	[15]	\$64,044
4.	Property Taxes	\$18,000	\$16,700	\$4,300	[4]	[11]	[16]	\$39,000
5.	Net Plant	\$473,847	\$712,809	\$219,168	[5]	[12]	[17]	\$1,405,824
6.	Rate of Return	8.18%	8.18%	8.18%	[6]			8.18%
7.	Return on Rate Base (Line 5 x Line 6)	\$38,761	\$58,308	\$17,928				\$114,996
8.	Incremental Impact (Lines 1-4 plus Line 7)	\$81,541	\$123,200	\$29,464				\$234,204
9.	Gross Revenue Conversion Factor	1.705611	1.705611	1.705611	[7]			1.705611
10.	Incremental Impact After Accounting for Income Taxes (Line 8 x Line 9)	\$139,077	\$210,131	\$50,254				\$399,462
11.	Annual Incremental Effect of the Proposed Transactions							\$399,462

Notes

- [1] DOC IR #5 response is the source of the annual estimate for other revenue.
- [2] DOC IR #5 response is the source of the annual estimate for operating and maintenance expenses.
- [3] DOC IR #6 response is the source of the estimate for 2017 depreciation expense.
- [4] DOC IR #7 response is the source of the estimate for 2017 property tax expense.
- [5] DOC IR #4 response is the source of the estimate for 2017 average net plant balance.
- [6] Commission approved Rate of Return in Docket No. E015/GR-09-1151.
- [7] Commission approved Gross Revenue Conversion Factor in Docket No. E015/GR-09-1151.
- [8] DOC IR #3 response is the source of the annual estimate for other revenue.
- [9] DOC IR #3 response is the source of the annual estimate for operating and maintenance expenses.
- [10] DOC IR #4 response is the source of the estimate for 2017 depreciation expense.
- [11] DOC IR #5 response is the source of the estimate for 2017 property tax expense.
- [12] DOC IR #2 response is the source of the average net plant balance.
- [13] DOC IR #2 response is the source of the annual estimate for other revenue.
- [14] DOC IR #2 response is the source of the annual estimate for operating and maintenance expenses.
- [15] DOC IR #3 response is the source of the estimate for 2017 depreciation expense.
- [16] DOC IR #4 response is the source of the estimate for 2017 property tax expense.
- [17] DOC IR #1 response is the source of the estimate for 2017 average net plant balance.

Present Value Analysis of Cash-Flows Resulting from Over-Recovery of Real-Estate Related Costs

Line No.	Description	17-457	17-459	17-460	Total
1.	Proceeds from Sales (Purchases)	\$375,000	\$300,000	\$247,000	\$922,000
2.	Annual Over-Recovery in Base Rates				\$399,462
3.	Monthly Over-Recovery in Base Rates (Line 2 / 12 months)				\$33,288
4.	Current Approved Annual Rate of Return				8.18%
5.	Monthly Currently Approved Rate of Return (Line 4 / 12 months)				0.68%
6.	Number of Months Between Rate Cases				72
7.	Present Value of Monthly Over-Recovery Discounted by Monthly Rate of Return for 72 Months				\$1,889,108
8.	Sum of 2017 Proceeds from Sales and Purchases and the present value of the over-recovery in base rates (Line 1 + Line 2 + Line 3)				\$2,811,108

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

MINNESOTA DEPARTMENT OF COMMERCE – COMMENTS

Docket Nos. **E015/PA-17-457**
E015/PA-17-459
E015/PA-17-460
E015/PA-17-461

Dated this **18th** day of **September, 2017**.

/s/Linda Chavez

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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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_17-457_M-17-457
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