



AN ALLETE COMPANY

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VIA E-FILING

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

Re: In the Matter of the Petition of Minnesota Power Under Minnesota Statutes Section 216B.49 for Approval of its Capital Structure And Authorization to Issue Securities

Docket No. E015/S-19-170

REPLY COMMENTS

Minnesota Power (or “the Company”) submits these Reply Comments to the Minnesota Public Utilities Commission (“Commission”) in response to the Department of Commerce – Division of Energy Resources (“Department”) Comments filed on July 31, 2019, in the above-referenced Docket. On February 19, 2019, the Company filed a Petition with the Commission seeking approval for its 2019 Capital Structure and Authorization to Issue Securities, including approval of a total equity ratio of 56.40% with a contingency window of +/-10% (50.76% to 62.04%). On June 24, 2019, Minnesota Power filed a letter requesting to modify the high-end of the Company’s initial proposed contingency window and not set a maximum amount or cap for the total equity ratio. On June 28, 2019, the Commission issued a Notice of Comment Period (“Notice”) on several topics including the Company’s request to remove the cap on the equity ratio in its capital structure, and proposal to evaluate converting to a holding company structure. The Company provides the following response to the Department’s Comments to the Notice.

As stated in the Company’s June 24, 2019 letter to the Commission, Minnesota Power is an operating division of ALLETE, Inc. (“ALLETE”). In addition to Minnesota Power, ALLETE owns several business, regulated and non-regulated, that provide affordable, reliable energy services primarily in the Upper Midwest. The non-regulated businesses at ALLETE in particular carry more equity. As a result, the potential exists that ALLETE’s equity ratio could increase by an amount greater than allowed by the +10% contingency window requested in the Company’s February 19, 2019 Petition.

The Department expressed several reasons why the Commission should deny Minnesota Power's request to remove the equity cap. The Company is confident that the proposed removal of the equity cap, at a minimum, does not increase the level of risk for customers, and may even lessen their risk. In fact, the Company has taken a more conservative approach with additional equity rather than issuing too much debt which concerns the Commission.¹ The requested modification to the equity cap should be approved for the following reasons:

- The Department states that the Company "can file a new capital structure petition with the Commission at any time." Although this is true, Minnesota Power is concerned with timely regulatory review due to the multiple complex dockets (e.g. rate cases, integrated resource plans, and integrated distribution plans) before the Commission in the next few years. Similar to the utility industry, the financial environment is continually changing; therefore, it is important that ALLETE has the flexibility to execute on business transactions.
- The removal of the equity cap does not change the capital structure for Minnesota Power nor will it change what is applied in a rate case.
- Issuing equity improves ALLETE's credit rating which is beneficial to Minnesota Power and its customers. The Department's Table 1 on page 5 would require the Company to issue debt to stay in compliance with the Commission's capital structure approval, which creates unnecessary risk for customers. Using more equity in the capital structure lowers or "de-risks" financing to the benefit of customers. And, some entities may carry a higher equity ratio than reflected in Table 1, as high as 100 percent. Additionally, in order for the Company to "double its planned equity increase and still remain within the initially proposed contingency ranges" as shown in Table 1, a sequence of financial actions, that rarely align in the timing assumed for this scenario, would need to occur for this outcome to be realized.

An acceptable alternative to removing the cap in its entirety would be for the Commission to increase the equity cap to 75 percent. This percentage would reduce the risk of Minnesota Power being out of compliance with the ongoing Commission order² that limits the Company to only issuing securities that would not result in an equity ratio outside the proposed range or a total capitalization exceeding its proposed cap for more than 60

¹ *In the Matter of Greater Minnesota Gas, Inc.'s (GMG) Petition for Approval of 2019 Capital Structure and Permission to Issue Securities* (Docket No. G022/S-18-749). The Commission agreed with the Department's recommendations to increase the equity ratio: "GMG's financial performance in 2016 and 2017 was somewhat better than 2015, but the Company's equity ratio remains low relative to its peers and the Department remains concerned about the risks associated with GMG's leverage. GMG's proposed 2019 capital structure represents an improvement, and the Department recommends that the Commission approve it and encourage further improvement by imposing requirements for modest increases in GMG's next capital structure filing." (See page 13 of the Department's February 4, 2019 Comments).

² See Order Point A.4. of the September 5, 2018 Order in Docket No. E015/S-18-155.

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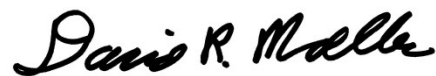
days, while still providing a certain level for the Commission and the Department to assess in future capital structure dockets.

As part of Minnesota Power's strategy to preserve its long-term financial health and that of the broader ALLETE organization, the Company is evaluating conversion to a holding company structure which, among other benefits, would address future concerns of exceeding an equity ratio contingency cap set at +10 percent. Under a holding company structure, financial actions taken by ALLETE for its non-regulated businesses would be more clearly separated from Minnesota Power's regulated business than it is under the current operating division structure.

Minnesota Power agrees with the Department that executing a corporate restructuring to a holding company is complex and will take time to evaluate and execute. The Company also agrees with the Department that the Commission does not need to take any action at this time, and commits to keeping the Commission apprised.

Minnesota Power appreciates the time and work of the Department in their Comments and respectfully requests that the Commission approve removal of the equity cap. In the event the Commission is not comfortable with removing the equity cap in its entirety, the Company requests that the Commission approve an equity cap of 75 percent. Please contact me with any questions related to this matter.

Yours truly,

A handwritten signature in black ink that reads "David R. Moeller". The signature is written in a cursive, flowing style.

David R. Moeller

DRM:sr

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

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

SUSAN ROMANS of the City of Duluth, County of St. Louis, State of Minnesota, says that on the **9th** day of **July, 2019**, she served Minnesota Power’s Reply Comments in **Docket No. E015/S-19-170** on the Minnesota Public Utilities Commission and the Office of Energy Security via electronic filing. The persons on E-Docket’s Official Service List for this Docket were served as requested.



Susan Romans