COMMERCE DEPARTMENT

April 17, 2018 **PUBLIC DOCUMENT**

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

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/S-18-155

Dear Mr. Wolf:

Attached are the **PUBLIC** comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

A petition by Minnesota Power for Approval of its 2018 Capital Structure and Authorization to Issue Securities.

The petition was filed on February 15, 2018. The petitioner is:

Christopher D. Anderson
Associate General Counsel
Minnesota Power
30 West Superior Street
Duluth, Minnesota 55802

The Department recommends **approval** and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E015/S-18-155

PUBLIC DOCUMENT

I. SUMMARY OF MINNESOTA POWER'S PROPOSAL

On February 15, 2018, Minnesota Power (MP or the Company) petitioned the Minnesota Public Utilities Commission (Commission) for approval of ALLETE, Inc.'s (ALLETE) proposed 2018 consolidated capital structure (Petition). More specifically, MP is seeking approval of:

(1) a common equity ratio of 57.07 percent with a contingency of plus or minus 10 percent (i.e., 51.36 percent to 62.78 percent);

(2) its proposed 2018 capital structure and a total consolidated capitalization of $4,377 million with a contingency reserve of $438 million ($4,815 million total);

(3) the ability to issue securities with the provision that no issuance would result in the Company exceeding the contingencies described in its filing for more than 60 days, without prior Commission approval;

(4) the ability to issue short-term debt up to 15 percent of total capitalization; and

(5) a variance to Minn. Rules 7825.1000, subp. 6 to allow the Company to treat borrowing under multi-year credit agreements as short-term debt.

MP requests approval of ALLETE's estimated consolidated capital structure and its proposed issuance of securities from the date of issuance of a Commission Order approving the instant Petition through the latter of (i) May 1, 2019 or (ii) the date at which a subsequent capital structure Order is issued.

II. DETAILS OF MINNESOTA POWER'S REQUEST

ALLETE's actual consolidated capital structures (in millions of dollars) for December 31, 2015, December 31, 2016, December 31, 2017 and projected June 30, 2019 are presented below:[1]

Table 1: Actual and Projected Consolidated Capital Structures ($ Millions)

Capital Structures	12/31/2015		12/31/2016		12/31/2017		Projected June 30, 2019	
Long-Term Debt	$1,605	46.80%	$1,558	45.15%	$1,503	42.09%	$1,879	42.93%
Short-Term Debt	$2	0.05%	$0	0.00%	$0	0.00%	$0	0.00%
Common Equity	$1,822	53.15%	$1,893	54.85%	$2,068	57.91%	$2,498	57.07%
Total Capitalization	$3,429	100.00%	$3,451	100.00%	$3,571	100.00%	$4,377	100.00%

ALLETE's proposed consolidated capital structure (in millions of dollars) for 2018 is presented below:

2018
Proposed Capital Structure
(Million dollars)

	Amount	Percentage
Long-Term Debt	$1,879	42.93%
Short-Term Debt	$0	0.00%
Common Equity	$2,498	57.07%
Total Capitalization	$4,377	100.00%
Contingency	$438	
Total	$4,815	

MP estimates the following issuances of securities for ALLETE (in millions of dollars):

	2018 Estimated Amounts To be Issued
Long-Term Debt	$376
Short-Term Debt	As needed[2]
Common Equity	$342

[1] See Petition, page 3, Table 1.
[2] Pursuant to the Commission's June 8, 2017 Order in Docket No. E015/S-17-142, ALLETE may issue short-term debt at any time during the authorization period, not to exceed 15 percent of total capitalization.

ALLETE may issue short-term debt during the authorization period as needed primarily to fund maturing long-term debt or for short-term bridge financing. Combined corporate and subsidiary short-term obligations are not expected to exceed 15 percent of total capitalization at any one time during the authorization period. MP requests the same 15 percent cap for 2018.

The Company requests approval of the following contingencies and securities issuances during the authorization period:

- a range of 10 percent below and 10 percent above the 2018 common equity ratio of 57.07 percent (*i.e*., a range of 51.36 percent to 62.78 percent);

- any securities issuance that results in an equity ratio within that range, or that would not result in an equity ratio outside this range for more than 60 days;

- a cap of $438 million over ALLETE's total capitalization of $4,377 million (*i.e*., a total capitalization of $4,815 million); and

- any securities issuance that results in total capitalization below the cap (*i.e*., below $4,815 million), or that would not result in total capitalization above the cap for more than 60 days.

In addition, MP proposes to seek approval from the Commission for any securities issuance as soon as the Company has reason to believe that any such issuance would cause the common equity ratio or total consolidated capitalization to fall outside the approved contingency ranges for more than 60 days.

III. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources' (Department) review indicates that MP has provided all the information required by Minn. Rules 7825.1000 - 7825.1500.

In its analysis below, the Department discusses the reasonableness of both ALLETE's consolidated capital structure and MP's request for securities issuance.

A. CAPITAL STRUCTURE

To check the reasonableness of ALLETE's 2018 consolidated capital structure, the Department compared the equity ratio in ALLETE's capital structure with the average equity ratio of electric utilities that are risk-comparable to MP. The 2017 average equity ratio for publicly traded electric utilities with bond ratings from A3 to Baa1[3] (ALLETE's bond rating is A3) was 47.15 percent. The group's 2017 year-end average long-term debt ratio was 49.38 percent (Attachment 1). The Department notes that ALLETE's proposed equity ratio of 57.07 percent is significantly higher than the group's average equity ratio, and that ALLETE's debt ratio is lower than the group's average debt ratio. Therefore, ALLETE's consolidated capital structure does not raise concerns about an equity ratio that is too low, which could have negative effects on the Company between rate cases.

In addition, the Department notes that a higher equity ratio is generally associated with a lower financial risk. However, for ratemaking purposes, the Department would be concerned about an equity ratio that is too high since it may increase the Company's cost of capital.

Minnesota Power also identified the driver for this increase in ALLETE'S equity ratio in response to Department Information Request No.1. The Company explained –

> The 2018 capital structure petition is a consolidated petition for ALLETE, so the equity ratio request of 57.07% also incorporates growth at ALLETE'S non-regulated subsidiaries. ALLETE'S nonregulated subsidiaries are financed with a higher equity ratio than Minnesota Power in an effort to maintain ALLETE'S credit rating. ALLETE expects Minnesota Power to be capitalized appropriately and near its 53.81% equity ratio as approved in its most recent rate case.

A copy of this information request and the response is included in Attachment B.

B. CONTINGENCIES

1. General Discussion

Since the early 1980s, Minnesota Power has been continually noting in its filings that the Company would like to mitigate some of its business risk by diversifying its revenue stream.[4]

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[3] This ratings scale is used by Moody's Investor Services.

[4] ALLETE's efforts have been an attempt to lessen its dependence on the revenue provided by the Company's 10 – 12 major mining and paper customers.

Non-regulated businesses provided about 13 percent of ALLETE's total net income in 2016, and about 25 percent of ALLETE's net income in 2017.[5] The Department recommends that ALLETE continue its diversification efforts in a reasonable manner and report them in its next capital structure filing. Table 1 summarizes net income for 2016 and 2017 for selected entities at ALLETE.

Table 1 – ALLETE NET INCOME COMPARISON 2016-17*

Entity	2017 Net Income	2016 Net Income	Percentage Change
Regulated Operations	$128.4	$135.5	-5.24%
ALLETE Clean Energy	$41.5	$13.4	210%
U.S. Water	$10.7	$1.5	613%
Corporate & Other	($8.4)	$4.9	-271.3%
Total	$172.2	155.3	10.9%

*Information taken from ALLETE's 10-k filed February 15, 2018 with the United States Securities and Exchange Commission. See http//www.sec.gov.

In Minnesota Power's most recent capital structure petition (Docket No. E015/S-17-142), the Commission approved a 10 percent contingency range around its approved equity ratio. The Department concludes that a 10 percent contingency range is reasonable because it would allow the Company financial flexibility, but also provides sufficient regulatory oversight.

2. Total Capitalization and Issuance of Securities

MP's best estimate of ALLETE's issuance of securities (in millions of dollars) in 2017 is provided below:

	Estimated Amounts To be Issued
Long-Term Debt	$376
Short-Term Debt	As Needed[6]
Common Equity	$342

[5] According to the Company, its diversification includes two segments beyond its Regulated Operations segment – the Energy Infrastructure and Related Services (EIRS) and Corporate and Other (C&O). ALLETE Clean Energy and U.S. Water Services resided in the EIRS segment. BNI and ALLETE Properties reside in the C&O segment.
[6] MP requests that ALLETE be allowed to issue short-term debt at any time during the authorization period, not to exceed 15 percent of total capitalization.

As indicated above, the Company requests approval for total capitalization not to exceed $4,377 million. This total capitalization does not include the contingency amount of $438 million.

Pages 8 through 9 of the Company's Petition discuss in detail the need for the various securities issuances, such as the issuance of long-term debt by ALLETE or on behalf of one or more subsidiaries, to provide for funding for existing operations and the acquisition of related businesses. In particular, ALLETE anticipates capital expenditures of about **[TRADE SECRET DATA HAS BEEN EXCISED].** Based on its expected capital expenditures and its plan to continue to diversify via acquisition of related businesses, the Department recommends that the Commission approve MP's request for the $438 million contingency cap on ALLETE's total capitalization (about 10 percent of total capitalization). The Department also concludes that the issuance of the aforementioned securities is appropriate and recommends that the Commission approve any issuance of securities during the authorization period that would not result in an equity ratio outside the proposed range or total capitalization exceeding the proposed cap for more than 60 days.

The Department notes that any property acquisitions by MP must follow the requirements of Minnesota Statutes and Rules; the Commission's approval of the Company's capital structure Petition does not, in any way, suggest that the Commission would approve any petition regarding property acquisitions or affiliated interests. Further, it should be clear that no utility assets may be pledged to finance non-regulated activities.

3. Equity Ratio

The Company requests a contingency range of plus or minus 10 percent around ALLETE's proposed 57.07 percent equity ratio (*i.e.*, 51.36 percent to 62.78 percent). The Department recognizes ALLETE's need for financial flexibility to respond to unexpected changes in its financial and economic environment. However, this need for flexibility must be balanced against appropriate regulatory oversight. In its most recent Order regarding ALLETE's capital structure (Docket No. E015/S-17-142), the Commission allowed ALLETE a contingency range of plus/minus 10 percent around its approved equity ratio. This contingency range is the same as the one requested by the Company in the instant Petition. The Department concludes that a 10 percent range, as proposed by MP, would provide ALLETE with sufficient financial flexibility, while at the same time allowing the Commission sufficient regulatory oversight of the Company's capital structure. Therefore, based on its analysis and the Commission's Order in Docket No. E015/S-17-142 the Department concludes that MP's proposed common equity contingency is reasonable.

4. Short-Term Debt

The Company requests flexibility to issue short-term debt not to exceed 15 percent of total capitalization at any time during the authorization period. This 15 percent cap includes any short-term debt that may be issued under ALLETE's Credit Facility provisions. The Department concludes that the 15 percent cap is reasonable because it would allow the Company the needed flexibility to meet the Company's short-term fluctuations in its revenues and expenditures. The Department also notes that the Commission allowed the Company a similar 15 percent cap on short-term debt in its previous Capital Structure Order (Docket No. E015/S-17-142). The Department discusses the Company's request for a variance regarding its credit facility later in Section IV below.

5. Corporate Restructuring and Credit Rating

The Department notes that although MP did not discuss the potential for corporate restructuring in its filing, the Department believes that the Commission may want to track this issue on a going-forward basis. In MP's most recent rate case, (Docket No. E015/GR-16-664), the Company and certain intervenors exerted a significant amount of resources discussing MP's credit rating and the potential effects of various actions on that credit rating. Given the concern expressed by multiple parties in that proceeding, the Department recommends that the Commission require MP to inform the Commission in a timely manner of any corporate restructuring and of the effect of that restructuring on the Company's credit rating.

C. ADDITIONAL REPORTING REQUIREMENTS

On May 12, 2009, the Commission issued an Order "Augmenting Information Required in Connection with Securities Issuances and Annual Capital Structure Filings" (Docket No. E,G999/CI-08-1416). Points 1 and 3 of the Order state respectively:

> 1. In addition to the information currently provided, the utilities' annual capital structure filings shall include an exhibit providing a general projection of capital needs, projected expenditures, anticipated sources, and anticipated timing, with the understanding that such exhibit is not intended to require dollar-for-dollar on the uses identified in the exhibit or to limit issuances to project-specific financing. The exhibit need not list short-term, recurring security issuances.
>
> 3. Starting with the utilities' next annual capital structure filings, the utilities shall include a report of actual issuances and uses

> of the funds from the prior year. The report will be for information purposes only and need not cover short-term, recurring securities issuances.

Also, on March 29, 2010, the Commission issued an Order in Docket No. E015/S-09-1233. Point 10 of the Commission Order states:

> MP shall, in its next securities issuance petition, provide a schedule comparing its actual capital investment in 2010 with the capital investments contained in Exhibit 1 of its February 12, 2010 Filing.

Finally, Point 3 of the Commission's September 1, 2010 Order in Docket No. E015/S-09-1233 requires that:

> MP shall submit in its next securities issuance petition the Company's investment plans not only for the next year, but for at least the next five years.

The Department interprets the Commission Ordered in Docket No. E015/S-09-1233, Points 10 and 3 as applicable to all future capital structure filings.

For the sake of clarity, the Department summarizes the requirements of the above-cited Commission Orders below.

1. MP must provide, in its capital structure filing, an exhibit showing a general projection of capital needs, projected expenditures, anticipated sources, and anticipated timing, with the understanding that such exhibit is not intended to require dollar-for-dollar on the uses identified in the exhibit or to limit issuances to project-specific financing. The exhibit need not list short-term, recurring security issuances.

2. MP must provide, in its next annual capital structure filings, a report of actual issuances and uses of the funds from the prior year. The report will be for information purposes only and need not cover short-term recurring security issuances.

3. MP must provide in its annual capital structure filing a schedule comparing its actual capital investments in the past year with the capital investments projected by MP in its previous capital structure filing.

4. MP must provide in its annual capital structure filing the Company's investment plans not only for the next year, but for at least the next five years.

The Department discusses these reporting requirements below.

a. Projected Capital Needs and Anticipated Resources (Point 1 above)

Exhibit J of MP's Petition provides the projected sources and uses of funds for the period 2018 and for the period January 1, 2019 through June 30, 2019. Based on its review of the Company's Exhibit J, the Department concludes that MP's petition complies with the Commission's requirement no. 1 above.

b. Actual Uses and Actual Issuances (Point 2 above)

Exhibit K of MP's filing provides information regarding issuances of securities during 2017. It shows that ALLETE issued $120,000,000 in long-term securities in 2017 and incurred $564,568 in issuance costs. The Company's Exhibit L at page 1 provides the appropriate information regarding the projected and actual 2017 uses of funds. Therefore, the Department concludes that MP's Petition complies with the Commission's requirement no. 2 above.

c. Comparison of Actual and Projected Capital Investment (Point 3 above)

MP's Exhibit L, page 1, provides the required information. MP's actual capital expenditure in 2017 was **[TRADE SECRET DATA HAS BEEN EXCISED]** million. Thus, actual expenditures in 2017 were about 45 percent of the projected capital expenditure. This difference is largely the result of lower-than-projected non-regulated capital expenditures. Regarding capital expenditures for ALLETE's regulated operations, the differences between actual and projected capital expenditures were also fairly significant for transmission (actual expenditures were significantly lower than projected expenditures). MP noted on page 2 of Exhibit L, "the Company experienced variances mainly due to a shift in costs related to the Great Northern Transmission Line." The Department asked MP to provide additional information as to why the Company's spending for the Great Northern Transmission Line (GNTL) were delayed in 2017 in Department Information Request No. 3.

The Company explained that the cost shifts were due to delayed regulatory approvals at the Federal level and weather. The Department considers MP's response explanation for the source of the cost shifts to be reasonable. A copy of MP's response is included as Attachment C. Based on the above analysis, the Department concludes the MP's Petition complies with the Commission's requirement no. 3 above.

d. Five-Year Investment Plan (Point 4 above)

MP is required to submit its investment plan for, at least, the next five years. Exhibit L of the Company's Petition provides its investment plan for the period 2018 through 2022. Based on its review of the Company's Exhibit L, the Department concludes that MP's Petition complies with the Commission's requirement no. 4 above.

IV. MP'S REQUEST FOR VARIANCE OF MINNESOTA RULES 7825.1000, SUBP. 6

A. INTRODUCTION

MP requests that the Commission grant continuation of a variance to Minnesota Rules 7825.1000, subp. 6 to allow the Company to include direct borrowing under a multi-year credit agreement as short-term debt.

Minnesota Rules 7825.1000, subp. 6 states:

> "Short-term security" means any unsecured security with a date of maturity of no more than one year from the date of issuance; and containing no provisions for automatic renewal or "roll over" at the option of either the obligee or obligor.

On November 4, 2013, the Company entered into a new $400 million Credit Agreement (CA).[7] The CA's term was five years (through November 2018). In November 2016, ALLETE extended the credit facility agreement one year (until November 2019). In November 2017, the Company extended the $400 million credit facility 11 months until October 2020. JP Morgan Chase Bank, N.A. is the Administrative Agent; J.P. Morgan Securities LLC is the Sole Lead Arranger and Sole Book Runner. Several other lenders are also party to the Credit Agreement (CA).

The CA is unsecured and has a maturity date of October 30, 2020. ALLETE may not request additional extensions of the CA. Advances may be used by ALLETE for general corporate purposes, to provide liquidity in support of ALLETE's commercial paper program and to issue up to $60 million in letters of credit.

The costs associated with this Credit Agreement are as follows:

[7] See Docket No. E015/S-14-145.

- A one-time issuance cost of approximately **[TRADE SECRET DATA HAS BEEN EXCISED].**
- An interest rate equal to the Eurodollar rate plus a margin of 90 to 147.5 basis points; and
- An annual fee of 10 to 27.5 basis points based on ALLETE's senior unsecured credit rating.

Table 2 below shows the exact relationship between credit rating levels and the various credit facility fees.

Table 1: Summary of Pricing for 2013 Credit Facility Agreement Given Different Credit Ratings

Status	Pricing Level I	Pricing Level II	Pricing Level III	Pricing Level IV	Pricing Level V
Senior Debt Rating	≥A/A2	A-/A3	BBB+/Baa1	BBB/Baa2	<BBB/Baa2
Applicable Margin for Eurodollar Rate loans and Letter of Credit participation fees	0.900%	1.000%	1.075%	1.275%	1.475%
Applicable for facility fees	0.100%	0.125%	0.175%	0.225%	0.275%
Applicable margin for Alternate Base Rate (ABR) loans	0%	0%	0.075%	0.275%	0.475%

At present, the applicable fees for MP are the fees under Pricing Level III (ALLETE's rating is BBB+)[8]. The Eurodollar rates are the London Interbank Offered Rate (LIBOR) at which banks borrow money from each other for a short-term period. As shown in the Company's Attachment B, its 2017 credit facility cost was 0.214 percent (21 basis points). This cost includes direct borrowings during 2017.

B. ANALYSIS

Minnesota Power notes in footnote 5 of the Petition that the Company has requested and received Commission approval for a variance to Minnesota Rules 7825.1000, subp. 6, to allow the Company to include direct borrowing under a multi-year credit agreement as short-term debt, in its last seven capital structure filings. The Company asserts in its Petition that the requested variance meets the three-part test for variance as provided for by Minn. Rules 7829.3200. The three parts of the test are:

[8] The bond ratings in Table 1 reflect Standard & Poor's rating schedule.

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

The Company supports its assertion as follows:

a. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule

Minnesota Power states that since the purposes and manner in which the credit facility may be used resembles that for which short-term securities would be issued, enforcement of the rule would impose an excessive burden. In a prior capital structure petition (Docket No. E015/S-11-174), MP stated:

> Minnesota Power's customer concentration requires the Company to maintain liquidity to ensure capital availability during unexpected and prolonged downturns in its large industrial customer base. As noted by MP's witness, Mr. Stellmaker in his Rebuttal Testimony (page 34) in Minnesota Power's 2009 general rate case [Docket No. E015/GR-09-1151], "*…the industrial customer demand nomination levels are subject to periods of rapid and pronounced variability. Customer load reductions often occur coincident with challenging financial market conditions. To mitigate the effects of the demand variations, the Company must preserve liquidity. In other words, to compensate for the cash flow fluctuations resulting from reduced demand the Company needs access to "on demand" liquid financing such as the short-term financing available from its commercial paper program or its revolving credit facility."* In fact, Standard & Poor's has cited that due to its high concentration of customers in cyclical industries, the Company is required to maintain ample liquidity to manage through cyclical swings. A revolving credit facility provides immediate access to capital and supports the Company's liquidity profile. Without such a credit facility, ALLETE would be forced to manage its capitalization with higher cash balances to maintain liquidity as access to the capital markets can, depending on market conditions and the types of securities offered, take weeks to receive the cash. Without the facility, the Company's cost of

> obtaining capital from the markets will increase, reflecting its reliance solely on the capital markets to obtain external funds.
>
> Such reliance will lead to an increase in the costs of external funds and a corresponding increase in costs for Minnesota Power's ratepayers.

The Department observes that the reasons stated above to support the need for MP's credit facility remain valid for its new capital structure Petition. The Department also notes that for 2018, ALLETE's capital expenditure is budgeted to be about **[TRADE SECRET DATA HAS BEEN EXCISED]** million dollars compared to its cash from operations of only about **[TRADE SECRET DATA HAS BEEN EXCISED]** million dollars. Therefore, ALLETE will have to secure a significant amount of debt in 2018. Such a large cash requirement for ALLETE in 2018 and beyond requires ALLETE to backstop its liquidity position with large credit facilities.

Finally, the Department also observes that the Commission will retain oversight as to the types of securities that ALLETE contemplates issuing under a multi-year agreement through the annual capital structure filings, the 15 percent short-term contingency limit, the equity ratio, and the equity ratio ranges. This oversight ensures that ALLETE will continue to have a capital structure that meets the public interest. Absent the flexibility to use the credit facility, the Company would have to request a higher long-term debt contingency and may also face higher long-term and short-term interest rates. Therefore, disallowing the variance may impose an excessive burden upon the Company and eventually its ratepayers.

Based on the above analysis, the Department concludes that enforcement of the rule may impose an excessive burden upon the applicant or others (ratepayers and shareholders) affected by the rule.

b. Granting the variance would not adversely affect the public interest

Minnesota Power states the following on page 6 of the Petition:

> The Commission retains oversight over these types of issuances through annual capital structure filings, the 15% limit, the equity ratio, and the equity ratio ranges. These parameters ensure that the Company will continue to have a capital structure that meets the public interest.

In addition, the Credit Agreement allow the Company to lock in liquidity and fee structures for at least one year, which is also in the public interest.

c. Granting the variance would not conflict with standards imposed by law

According to the Company, granting the requested variance would not conflict with any standard imposed by law.

The Department agrees with the Company that granting the requested variance would not adversely affect the public interest and would not conflict with the standards imposed by law.

To summarize, based on its review and analysis of the Company's petition, the Department concludes that the Company's requested variance meets the three-part test. Therefore, the Department recommends that the Commission approve MP's request for a variance of Minn. Rules 7825.1000, subp.6.

V. DEPARTMENT RECOMMENDATIONS

The Department's recommendations are as follows:

A. RECOMMENDATIONS REGARDING SECURITIES ISSUANCES AND CAPITAL STRUCTURE

1. Approve ALLETE's 2018 proposed capital structure. This approval will remain effective until the latter of May 1, 2019 or the date at which the Commission issues a new capital structure Order;

2. Approve ALLETE's equity ratio contingency of plus/minus 10 percent around its 2018 proposed equity ratio. Equity ratios outside this range may not exceed a period of 60 days without Commission approval;

3. Approve ALLETE's total capitalization contingency of $438 million above its 2018 total capitalization. ALLETE may not exceed its total capitalization including the requested contingency of $438 million for a period longer than 60 days without prior Commission approval;

4. Allow MP to issue any securities in 2018 that would not result in an equity ratio outside the proposed range or a total capitalization exceeding its proposed cap for more than 60 days;

5. Require MP to obtain prior approval for the issuance of any securities in 2018 that would result in an equity ratio outside the approved range or a total capitalization exceeding its approved cap for more than 60 days.

6. Require MP to provide, within 20 days after each non-recurring issuance of securities, the following information:

    a. The specific purposes for the individual issuances;
    b. The type of issuances;
    c. The timing of issuances;
    d. The amounts of issuances;
    e. Issuance costs (for common equity issuances, include price per share), and
    f. Interest rates.

7. Require MP to provide, in its next capital structure filing, an exhibit showing a general projection of capital needs, projected expenditures, anticipated sources, and anticipated timing, with the understanding that such exhibit is not intended to require dollar-for-dollar on the uses identified in the exhibit or to limit the issuances to project-specific financing. The exhibit need not list short-term security issuances.

8. Require MP to provide, in its next annual capital structure filing, a report of actual issuances and uses of the funds from the prior year. The report will be for information purposes only and need not cover short-term security issuances.

9. Require MP to provide in its next annual capital structure filing a schedule comparing its actual capital investments in the past year with the capital investments projected by MP in its previous capital structure filing.

10. Require MP to provide in its next annual capital structure filing the Company's investment plan not only for the next year, but for at least the next five years.

11. Approve MP's request for a variance to allow it to treat any loan under its multi-year credit facility as a short-term debt and require MP to report on its use of such facilities including:

    - How often they are used;
    - The amount involved;
    - Rates and financing costs; and
    - The intended uses of the financing.

12. Require MP to file its request for approval for its 2019 securities issuances no later than March 1, 2018.

13. Clarify that approval of securities issuance and the resulting capital structure, within this proceeding, is not a determination of the appropriate capital structure for ratemaking purposes.

B. RECOMMENDATIONS REGARDING POTENTIAL CORPORATE RESTRUCTURING EFFECT ON CREDIT RATINGS

1. Require MP to keep the Commission informed in a timely manner of any corporate restructuring.

2. Require MP to keep the Commission informed in a timely manner of any rating agency action.

/ja

DOC Proxy Group for Proposed Debt and Equity Ratios Based on ALLETE'S Moody's Bond Rating (A3)

	SIC Code	Stock Ticker Symbol	Value Line Beta (1)	Moody's Debt Rating (2)	LTD Debt Ratio (3)	2017 Equity Ratio (3)	STD Debt Ratio (3)
ALLETE INC	4931	ALE	0.750	A3	42.09	57.91	0
ALLIANT	4931	LNT	0.700	Baa1	50.08	47.09	2.83
AMEREN	4931	AEE	0.650	Baa1	50.40	46.53	3.07
AMERICAN ELEC. POWER	4931	AEP	0.650	Baa1	51.50	44.51	3.99
DTE ENERGY CORP	4931	DTE	0.650	Baa1	54.82	42.41	2.77
EDISON INTERNATIONAL	4911	EIX	0.700	A3	42.74	48.83	8.43
EL PASO ELECTRIC	4911	EE	0.800	Baa1	52.52	44.13	3.35
IDACORP	4911	IDA	0.700	Baa1	44.52	54.93	0.55
NORTHWESTERN CORP	4931	NWE	0.700	Baa1	46.18	45.70	8.12
PG&E	4931	PGC	0.650	Baa1	47.14	50.44	2.42
PINNACLE WEST	4911	PNW	0.700	A3	48.85	50.20	0.95
PORTLAND GEN. ELEC.	4911	POR	0.700	A3	50.62	49.38	0
WEC ENERGY GROUP	4931	WEC	0.600	A3	46.72	46.24	7.04
XCEL ENERGY	4931	XEL	0.600	A3	55.87	42.61	1.52
No.of Companies	14						
Average			0.689		49.38	47.15	3.46
Standard Deviation			0.054		4.03	3.70	2.89
Minimum			0.650		42.74	42.41	0.00
Maximum			0.800		55.87	54.93	8.43

Sources:

(1) ValueLine

(2) www.Moodys.com

(3) Compustat Data Base February 28, 2018

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	E015/S-18-155	☐Nonpublic ☒Public	
Requested From:	Susan Ludwig, Minnesota Power	Date of Request:	March 15, 2018
Type of Inquiry:	Financial	Response Due:	March 26, 2018

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

Request Number: **1**
Topic: Equity Ratio/Contingency Range
Reference(s): Page 6 of the filing

Request:

Please provide the analysis that supports MP's proposed increase in its equity ratio from the 56.72 percent approved in Docket No. E015/S-17-142 and the proposed equity ratio of 57.07 percent in the instant docket. Please provide electronic copies with all links and formulas intact.

Response:

Please see attached DOC IR 01 Attach for the support behind the requested 57.07% equity ratio for ALLETE. The 2018 capital structure petition is a consolidated petition for ALLETE, so the equity ratio request of 57.07% also incorporates the growth at ALLETE's nonregulated subsidiaries. ALLETE's nonregulated subsidiaries are financed with a higher equity ratio than Minnesota Power in an effort to maintain ALLETE's credit rating. ALLETE expects Minnesota Power to be capitalized appropriately and near its 53.81% equity ratio as approved in its most recent rate case.

Response Date:	March 19, 2018
Response by:	Patrick Cutshall, ALLETE Vice President and Corporate Treasurer
Email Address:	pcutshall@allete.com
Phone Number:	218-355-3586

2018 Capital Structure Request

(Dollars in Millions)	2017 Order	Actual 12/31/2017	Projected 6/30/2019
Short-Term Debt	$0	$0	$0
Long-Term Debt, incl. Current Maturities	$1,791	$1,503	$1,879
Preferred stock	$0	$0	$0
Common Equity	$2,347	$2,068	$2,498
Total Capitalization	$4,138	$3,571	$4,377
Common equity ratio -- YE Projection	56.72%	57.91%	57.07%
	2017 Order	**2017 Order**	**2018 Request**
MPUC capitalization cap (+10% YE Projected Total Capitalization)	$4,555	$4,555	$4,815
Capitalization available End of FY	$417	$984	$438
MPUC Equity Ratio Minimum (-10% YE Projected Equity Ratio)	51.05%	51.05%	51.36%
MPUC Equity Ratio Maximum (+10% YE Projected Equity Ratio)	62.39%	62.39%	62.78%

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	E015/S-18-155	☐Nonpublic ☒Public
Requested From:	Susan Ludwig, Minnesota Power	Date of Request: March 23, 2018
Type of Inquiry:	Financial	Response Due: April 2, 2018

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

Request Number: 3
Topic: 2017 Transmission Expenditures
Reference(s): Page 2 of Exhibit L

Request:

Please provide a narrative that delineates the cost shifts the Company experienced in 2017 related to the Great Northern Transmission Line.

Response:

The Great Northern Transmission Line project experienced cost shifts in 2017 due to delayed regulatory approvals and weather. The Presidential Permit, which was the final major regulatory approval needed to commence construction for the Great Northern Transmission Line, was not issued by the U.S. Department of Energy until November 2016. The delay until late in the year largely impacted construction timelines and restricted construction activities to preconstruction activities in 2017. Site clearing and pre-construction activities then commenced in the first quarter of 2017. Weather also slightly impacted the shift in costs, as tower and foundation construction was delayed due to lack of favorable weather conditions, which in turn caused material purchases to be postponed.

To be completed by responder

Response Date: March 28, 2018
Response by: Karina Skudstad
Email Address: kskudstad@allete.com
Phone Number: 218-355-3315