COMMERCE DEPARTMENT

July 31, 2019 **PUBLIC DOCUMENT**

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

RE: **PUBLIC Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/S-19-170

Dear Mr. Wolf:

Attached are the **PUBLIC** Response 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 2019 capital structure and authorization to issue securities.

The Department recommends that the Minnesota Public Utilities Commission (Commission) **deny** Minnesota Power's request to remove the cap on its equity ratio contingency range and **approve** the capital structure and contingency ranges requested in Minnesota Power's initial Petition. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/ja
Attachment

Before the Minnesota Public Utilities Commission

Public Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E015/S-19-170

I. INTRODUCTION

On February 19, 2019, Minnesota Power (MP or the Company) filed a petition (Petition) with the Minnesota Public Utilities Commission (Commission) seeking approval of a proposed capital structure for its corporate parent, ALLETE, Inc. (ALLETE). The proposed capital structure reflected ALLETE's projected capital structure as of June 30, 2020, and included 56.4 percent equity and 43.6 percent long-term debt. MP also requested approval of certain contingency ranges for ALLETE'S debt and equity ratios, as well as its total capitalization. MP specifically requested an equity ratio contingency range of plus and minus 10 percent around ALLETE's expected equity ratio as of June 30, 2020, resulting in a contingency range of 50.76 percent to 62.04 percent.

On March 19, 2019, the Minnesota Department of Commerce (Department) filed comments (March Comments) recommending approval of ALLETE's proposed capital structure and the imposition of certain reporting requirements. The Department also requested that MP provide in reply comments more information related to the difference between ALLETE's actual and projected 2018 capital expenditures as presented in MP's prior capital structure docket (Docket No. E015/S-18-155). In addition, the Department requested that MP explain in reply comments whether it has plans to extend its Credit Agreement.

On March 27, 2019, MP filed Reply Comments providing additional information related to difference between is budgeted and actual capital expenditures during 2018, as well as its Credit Agreement.

On June 24, 2019, MP filed a letter (June Letter) modifying its requested equity ratio contingency range from its original request of 50.76 percent to 62.04 percent. The Company is now requesting that the Commission approve an equity ratio floor of 50.76 percent (identical to its original request), but that the Commission impose no cap on ALLETE's equity ratio.

On June 28, 2019, the Commission issued a Notice of Comment Period in this matter with the following topics open for comment:

- Minnesota Power's (ALLETE's) explanation of the variances between its 2018 projected and actual capital expenditures for regulated and non-regulated operations.
- Minnesota Power's amended and restated $400 million credit facility.
- Minnesota Power's request to remove the cap on the equity ratio in its capital structure.
- Minnesota Power's proposal to evaluate converting to a holding company structure.
- Any other issues or concerns related to this matter.

II. DEPARTMENT ANALYSIS

A. MP'S PROPOSAL TO REMOVE THE CAP ON THE EQUITY RATIO IN ITS CAPITAL STRUCTURE

1. Additional Details of MP's Proposal

In its June Letter, MP stated that ALLETE's non-regulated businesses carry more equity than its regulated businesses in order to meet financial metric thresholds for rating agency expectations. The Company also stated that ALLETE's non-regulated businesses are exploring and executing new opportunities, and that the combination of these new non-regulated endeavors along with their higher equity requirements creates the potential for ALLETE's equity ratio to increase above the 62.04 percent maximum requested in MP's initial Petition. MP described the removal of the equity ratio cap as an important component of its strategy to preserve the long-term financial health of MP and ALLETE.

MP also stated that removal of the equity cap for ALLETE's capital structure would not impact MP's capital structure in its next general rate case because equity and debt at ALLETE's non-regulated businesses are carved out to determine the Company's regulated capital structure for ratemaking purposes.

2. Department Analysis

MP's June Letter attributes ALLETE's need for additional equity to its non-regulated businesses, and ALLETE's most recent credit reports from the two major ratings agencies that cover ALLETE generally confirm the Company's assertion that its non-regulated businesses require more equity than its regulated businesses. For example, in a report dated February 8, 2019, S&P Global Ratings (Standard & Poor's or S&P) **[TRADE SECRET DATA HAS BEEN EXCISED].**

S&P also stated that:

> **[TRADE SECRET DATA HAS BEEN EXCISED].**

In a report dated April 3, 2019, Moody's, shortly after it downgraded ALLETE, stated:

> **[TRADE SECRET DATA HAS BEEN EXCISED].**

Moody's also stated that:

> **[TRADE SECRET DATA HAS BEEN EXCISED].**

Thus, it is clear that both Moody's and S&P view ALLETE's non-regulated operations as riskier than its regulated operations.

However, while MP's June Letter attributes ALLETE's need for additional equity to its non-regulated businesses, it contains little explanation of how ALLETE's circumstances have changed since February, when it filed its initial Petition, such that it no longer believes that the originally-proposed maximum equity ratio of 62.04 percent will be sufficient for the next year. In other words, it is not clear why ALLETE believes its equity needs have increased since February.

The Department reviewed Moody's and S&P's credit reports for ALLETE from 2018 and 2019 and notes that neither agency appears to have significantly changed its expectations for ALLETE with respect to the various financial metrics that provide the basis for their ratings criteria.[1] Additionally, MP did not provide any specific information about changes in ALLETE's planned capital expenditures in the next one to five years. As described on pages 6-9 of the Department's March Comments, the Commission has imposed numerous reporting requirements on MP related to projected sources and uses of cash and planned capital expenditure forecasts. All of the information MP provided in its Petition to satisfy these reporting requirements support its initial proposal, and MP has provided no comparable information to support its modified proposal.

Further, while MP is now asserting that the equity ratio contingency range it proposed initially is no longer sufficient, it is unable or unwilling to provide a revised projection of its capital structure. In its response to Department Information Request (IR) No. 2, MP stated that it does not have a firm or tentative target equity ratio that it believes will satisfy the ratings agencies expectations.[2] Rather, MP explained that it focuses its financial management on the financial metrics evaluated by the ratings agencies, and that its capital structure is "derived from the rating agency thresholds ALLETE is managing to."

MP stated that the financial metric thresholds it must meet to satisfy rating agency expectations are:

> numerous cash flow, debt payback, and interest coverage ratios. In the April 2019 Credit Report by Moody's Investors Service ("Moody's"), Moody's expects Cash Flow from Operations Pre-Working Capital to Debt to remain at or close to 20%. In Standard and Poor's ("S&P") most recent Credit Report in May 2019, S&P expects the Company to be not be less than 20% Funds from Operations to Debt.

Based on the above discussion, it is the Department's understanding that:

1. ALLETE is planning to make changes to its finances in order to achieve and/or maintain the cash flow and interest coverage thresholds emphasized by the ratings agencies;

[1] See Department Attachment No. 1.
[2] See Department Attachment No. 2.

2. ALLETE expects that those changes will impact its capital structure (i.e. increase its equity ratio) before June 30, 2020; and;
3. ALLETE is unable to estimate the magnitude of the impact on its capital structure.

While the Department understands that utilities generally need a degree of flexibility with respect to the capital structures, ALLETE's request for an uncapped equity ratio is not reasonable.

If the Commission were to approve the Company's initially requested equity ratio contingency range and total capitalization contingency, ALLETE would have substantial flexibility to issue additional equity. To the extent ALLETE needs to acquire capital to finance new projects in its non-regulated businesses, Table 1 demonstrates that it could more than double its planned equity increase and still remain within the initially proposed contingency ranges.

Table 1
ALLETE's Financial Flexibility Under
Initial Contingency Requests

	Dec. 31, 2018 Actual Capital Structure		Initial Request: Requested Increase	Initial Request: June 30, 2020 Projected Capital Structure		Potential June 30, 2020 Capital Structure With Max. Capitalization and Equity: Capital Structure 1/		Increase From Dec. 31, 2018	
Financing Type	($000s)	(%)	($000s)	($000s)	(%)	($000s)	(%)	($000s)	(%)
	[a]	[b]	[c]	[d]=[a]+[c]	[e]	[f]	[g]	[h]=[f]+[a]	[i]=[f]/[a]
Long-Term Debt	1,486	40.80%	587	2,073	43.60%	1,987	37.96%	501	33.73%
Short-Term Debt	-	0.00%	-	-	0.00%	-	0.00%		
Total Equity	2,156	59.20%	526	2,682	56.40%	3,248	62.04%	1,092	50.64%
Total Capitalization	3,642	100.00%	1,113	4,755	100.00%	5,235	100.00%	1,593	43.74%

1/ Total capitalization is requested capitalization including contingency. Equity amount calculated using high end of initially requested equity ratio contingency range.

As shown, ALLETE could increase its total equity by up to $1.1 billion if it were scale back its planned long-term debt issuance from $587 million to $501 million. Given that the planning period is only approximately one year, the degree of flexibility that would be afforded by MP's initial request should be more than sufficient. Further, ALLETE's inability to produce a revised projection of its capital needs for the next 12 months, even one that, with contingencies, provides a similar degree of flexibility as its initial request, is concerning.

As the Department explained in its March Comments, the Commission approved an equity ratio contingency range of plus/minus 10 percent in MP's prior capital structure docket (Docket No. E015/S-18-155), and in this Docket the Department concludes that a contingency range of plus/minus 10 percent will continue to allow ALLETE sufficient financial flexibility while also providing the Commission with sufficient regulatory oversight over ALLETE's capital structure.

The Department has also recommended, and Commission has also approved, equity ratio contingency ranges of plus/minus 10 percent in numerous capital structure proceedings.

In capital structure petitions generally, the Department opposes excessively large contingency ranges because they do not allow for sufficient regulatory oversight by the Commission and are therefore effectively equivalent to ceding authority over an applicant's capital structure. While the Department understands that, for ratemaking purposes, MP removes debt and equity attributable to its non-regulated operations from its capital structure, MP is a division of ALLETE, not a separate subsidiary, and financing decisions made on behalf of ALLETE's unregulated operations certainly impact the financing of its regulated operations. Therefore, the Commission must maintain its ability to exercise its authority over ALLETE's capital structure in order to protect ratepayers, and will not be able to do so if it removes ALLETE's equity ratio cap.

The Department notes that its intention is not to unnecessarily hinder ALLETE's non-regulated operations. If in the future ALLETE's capital needs become clearer and it is able to produce a meaningful projection of its capital structure with appropriate contingency ranges, it can file a new capital structure petition with the Commission at any time. At this time however, the Department concludes that MP has not provided enough information to ensure that ratepayers will be adequately protected.

B. OTHER TOPICS OPEN FOR COMMENT

1. MP's Explanation of the Variances Between its 2018 Projected and Actual Capital Expenditures for its Regulated and Non-Regulated Operations

In its March Comments, the Department noted that ALLETE's actual 2018 capital expenditures were significantly lower than its projected 2018 capital expenditures as presented in its petition in its prior capital structure Docket (Docket No. E015/S-18-155). The Department requested that MP provide additional information regarding these differences in Reply Comments.

On pages 2-3 of its Reply Comments, MP described the sources of those variances. For its regulated operations, MP deferred a number of projects and realized cost savings for many projects as well. MP also stated that the variance between actual and planned expenditures at ALLETE's non-regulated businesses was primarily due to deferral of initiatives, including business acquisitions.

Based on this description, the Department concludes that MP has satisfied its reporting requirement to provide a comparison of planned and actual capital expenditures.

2. MP's Amended and Restated $400 Million Credit Facility

In its March 19, 2019 Comments, the Department mistakenly stated that the Company's $400 million Credit Agreement has a maturity date of November 1, 2019, and asked MP to explain whether it had plans to extend the agreement. In its Comments, the Department also concluded that MP's proposals with respect to its use of short-term debt and its Credit Agreement were reasonable.

In its June Letter, MP stated, as it had in its Petition, that in early 2019 it extended the maturity date of its Credit Agreement to January 2024. Based on this the Department continues to conclude that MP's proposals with respect to short-term debt and its Credit Agreement are reasonable.

3. MP's Proposal to Evaluate Converting to a Holding Company Structure

In it June Letter, MP noted that it is currently an operating division of ALLETE and is evaluating the possibility of restructuring such that it would become a separate subsidiary of ALLETE.

Doing so would more clearly separate MP's financing structure from the rest of ALLETE's non-regulated businesses and would alleviate future concerns about the impact ALLETE's non-regulated businesses have on MP's capital structure and cost of capital. The possibility of restructuring has been raised in MP's last two rate cases as well.

As noted above, the credit ratings agencies consider ALLETE's non-regulated businesses to be riskier than its regulated businesses. Therefore, if ALLETE's non-regulated operations become a larger and more significant share of its operations, it may become more difficult to protect MP's ratepayers from the risks imposed by those operations and ensure that ratepayers do not bear additional costs associated with those increased risks. ALLETE's capital structure will likely deviate farther and farther from a capital structure that is reasonable for a regulated electric utility, which, MP's attempts to allocate ALLETE's debt and equity between regulated and non-regulated businesses notwithstanding, will make it harder to develop reasonable estimates of MP's cost of capital for ratemaking purposes.

If ALLETE were to reorganize and turn MP from an operating division into a separate subsidiary, MP's capital structure would be determined with a greater degree of independence from ALLETE's non-regulated operations, and because MP would be able to issue its own debt, its cost of debt would also be determined with less influence from ALLETE's non-regulated operations.

However, the Department also recognizes that a corporate reorganization is not a trivial exercise, and may present unexpected complications as well as significant transactions costs. In Docket No. E015/GR-09-1151 (MP's 2009 Rate Case) MP was required to evaluate converting to a holding company structure, and MP concluded that, at the time, it was not appropriate due in part to the small size of its non-regulated operations.[3] If ALLETE's non-regulated operations are now larger than they were in 2009, or ALLETE expects them to grow significantly in the near future, it may be appropriate for MP to revisit its analysis in a more formal manner.

However, the Department emphasizes that it is certainly possible for MP to propose, and for the Commission to approve, a capital structure for ALLETE that is significantly different than a capital structure that would be reasonable for use in ratemaking. As MP noted, it accounts for its equity in a manner that allows it to determine a regulated equity balance for ratemaking purposes, and has thus far been able to reasonably allocate its debt between regulated and non-regulated operations. This system has worked in the past and may continue to work in the future. The Department's concern in this Docket is that MP has not provided any real support for its proposal to remove its equity ratio cap, and approval of this request would undermine the Commission's authority to oversee MP's capital structure and its ability to adequately protect ratepayers.

If MP wishes to initiate a restructuring process, or simply a study of a potential restructuring, the Department will be an active participant. However, at this time, the Department recommends that the Commission take no action with respect to ALLETE's corporate structure other than requiring MP to keep the Commission informed of any restructuring efforts.

III. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

Because of the lack of support and clarity surrounding MP's modified proposal, the Department recommends that the Commission deny MP's request to remove the cap on the Company's equity ratio contingency range, and instead approve MP's initial proposal. The Department's recommendations, which are unchanged from its March Comments, are as follows:

A. RECOMMENDATIONS REGARDING SECURITIES ISSUANCES AND CAPITAL STRUCTURE

1. Approve ALLETE's 2019 proposed capital structure. This approval will remain effective until the later of May 1, 2020 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 2019 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 $480 million above its 2019 total capitalization. ALLETE may not exceed its total capitalization including the requested contingency of $480 million for a period longer than 60 days without prior Commission approval.

[3] See *In the Matter of the Application of Minn. Power for Auth. to Increase Rates for Elec. Util. Serv. in Minn.*, Docket No. E015/GR-09-1151, DIRECT TESTIMONY AND EXHIBITS OF DAVID J. MCMILLAN at 2-3 (Nov. 2, 2009).

4. Allow MP to issue any securities in 2019 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 2019 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 information 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:
    a. How often they are used;
    b. The amount involved;
    c. Rates and financing costs; and
    d. The intended uses of the financing.
12. Require MP to file its request for approval for its 2020 securities issuances no later than March 1, 2020.
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

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	E015/S-19-170	☐Nonpublic ☒Public	
Requested From:	Minnesota Power	Date of Request:	7/9/2019
Type of Inquiry:	Rate of Return	Response Due:	7/19/2019

Requested by: Craig Addonizio
Email Address(es): craig.addonizio@state.mn.us
Phone Number(s): 651-539-1818

Request Number: **3**
Topic: Rating Agency Treatment of ALLETE's Non-Regulated Businesses
Reference(s): MP's June 24, 2019 Letter

Request:

Please provide or cite to any methodology documents produced by the relevant ratings agencies that describe their treatment of the types of businesses comprising ALLETE's non-regulated lines of business.

RESPONSE:

We are not aware of a specific methodology being used by Standard and Poor's ("S&P") or Moody's Investors Service ("Moody's") to evaluate ALLETE's non-regulated lines of business. Instead, the approach taken by S&P and Moody's is to use their corporate and utility methodology to evaluate the ALLETE organization in its entirety. Moody's notes in their April 2019 Credit Opinion they expect ALLETE's non-regulated business will remain relatively small, but will also produce stable and predictable cash flows. Included with this information request response as DOC IR 03.01 Attach TS through DOC IR 03.08 Attach TS are the credit reports from Standard & Poor's and Moody's since January 1, 2018, describing ALLETE and its non-regulated lines of business. Please note that DOC IR 03.01 Attach TS through DOC IR 03.07 Attach TS were previously provided as attachments to the Department of Commerce – Division of Energy Resources' Information Request No. 5 in Docket No. E015/S-18-155 (see DOC IR 05.01 Attach TS – DOC IR 05.07 Attach TS).

DOC IR 03.01 Attach TS through DOC IR 03.08 Attach TS have been **designated as non-public in their entirety** because they contain information the Company considers to be trade secret as defined by Minn. Stat. § 13.37, subd.1(b). The information was purchased from a third party and derives independent economic value from not being generally known to, or readily ascertainable by, others who could obtain economic advantage from its disclosure or use.

Response Date: July 18, 2019
Response by: Patrick Cutshall – ALLETE VP & Corporate Treasurer
Email Address: pcutshall@allete.com
Phone Number: (218) 355-3529

PUBLIC DOCUMENTS

TRADE SECRET DATA HAS BEEN EXISED IN ITS ENTIRETY

The following Attachments to DOC IR 3 are Trade Secret in Their Entirety:

DOC IR 03.01 Attach TS
DOC IR 03.02 Attach TS
DOC IR 03.03 Attach TS
DOC IR 03.04 Attach TS
DOC IR 03.05 Attach TS
DOC IR 03.06 Attach TS
DOC IR 03.07 Attach TS
DOC IR 03.08 Attach TS

Minnesota Department of Commerce
Division of Energy Resources
Information Request

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Requested by: Craig Addonizio
Email Address(es): craig.addonizio@state.mn.us
Phone Number(s): 651-539-1818

Request Number: **2**
Topic: Uncapped Equity Ratio Contingency Range
Reference(s): MP's June 24, 2019 Letter

Request:

In its June 24, 2019 Letter, MP stated that ALLETE'S non-regulated businesses "carry more equity in order to meet financial metric thresholds for rating agency expectations. 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."

a. Does ALLETE have a firm or tentative target equity ratio that it believes will satisfy the ratings agencies' expectations?

b. How does ALLETE expect to increase its equity ratio during the next year or two?

c. Please explain specifically what financial metrics ALLETE must improve to the above-referenced financial metric thresholds.

RESPONSE:

a. No, ALLETE does not have a target equity ratio that it believes will satisfy the rating agency expectations at this time. The Company focuses on cash flow, debt payback, and interest coverage ratios the rating agencies require to maintain the Company's credit rating. Consequently, the debt and equity ratios are derived from the rating agency thresholds ALLETE is managing to. The timing of equity and debt funding is dependent on prevailing market conditions, cash flow, and timing of projects. We expect Minnesota Power to be at or near its authorized equity ratio as approved in the 2016 rate case for the immediate future.

Response Date: July 18, 2019
Response by: Patrick Cutshall, ALLETE VP & Corporate Treasurer
Email Address: pcutshall@allete.com
Phone Number: (218)355-3529

b. ALLETE expects to increase its equity ratio during the next year or two with a combination of tax equity financing, equity issuances, and retained earnings. ALLETE does not anticipate having sufficient tax liability to efficiently utilize the credits it will earn from renewable projects, so it needs to engage with a tax equity investor who can use the benefits economically.

c. The rating agencies focus on numerous cash flow, debt payback, and interest coverage ratios. In the April 2019 Credit Report by Moody's Investors Service ("Moody's"), Moody's expects Cash Flow from Operations Pre-Working Capital to Debt to remain at or close to 20%. In Standard and Poor's ("S&P") most recent Credit Report in May 2019, S&P expects the Company to be not be less than 20% Funds from Operations to Debt.

Response Date: July 18, 2019
Response by: Patrick Cutshall, ALLETE VP & Corporate Treasurer
Email Address: pcutshall@allete.com
Phone Number: (218)355-3529

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	E015/S-19-170	☐Nonpublic ☒Public
Requested From:	Minnesota Power	Date of Request: 7/9/2019
Type of Inquiry:	Rate of Return	Response Due: 7/19/2019

Requested by: Craig Addonizio
Email Address(es): craig.addonizio@state.mn.us
Phone Number(s): 651-539-1818

Request Number: **4**
Topic: MP Capital Structure vs. ALLETE's Capital Structure
Reference(s): MP's June 24, 2019 Letter

Request:

Please provide an update to Workpaper PLC-1 from MP's 2016 Rate Case (Docket No. E015/S-16-664) showing ALLETE's and MP's actual 2018 capital structures and, if available, ALLETE/MP's projected capital structure as of June 30, 2020 reflecting any changes anticipated as of June 24, 2019.

RESPONSE:

Please see DOC IR 04.01 Attach for the 2018 actual capital structure determination. Please note that this schedule starts at the ALLETE Parent level (ALLETE Consolidated capital structure less the debt at ALLETE subsidiaries). The ALLETE Parent capital structure differs from the ALLETE Consolidated capital structure used in the Consolidated Capital Structure Petition due to subsidiary debt. Additionally, while 2018 is not impacted, future years will also include tax equity financing at subsidiaries which will impact the ALLETE Consolidated capital structure, but not the ALLETE Parent or Minnesota Power capital structure.

As discussed in the 2016 Rate Case (Docket No. E015/GR-16-664), the Minnesota Power capital structure is determined by taking the ALLETE Parent capital structure and removing ALLETE's equity and debt investments in subsidiaries. This approach is restated in Minnesota Power's June 24, 2019 letter to the Commission requesting removal of the equity cap: "the requested removal of the equity cap will not impact Minnesota Power's capital structure in its next general rate case filing as equity and debt at non-regulated businesses are carved out to determine the Company's regulated capital structure."

The requested schedule is not yet available for 2020 and will be provided in the Company's forthcoming rate case filing.

Response Date: July 18, 2019
Response by: Patrick Cutshall – ALLETE VP & Corporate Treasurer
Email Address: pcutshall@allete.com
Phone Number: (218) 355-3529

Minnesota Power Capital Structure Determination
2018 Actual
(in thousands)

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	13 Mos. Average
ALLETE - Parent														
Common Equity	2,069,267	2,093,818	2,084,688	2,098,543	2,111,861	2,091,337	2,109,457	2,122,972	2,108,286	2,117,338	2,143,574	2,136,819	2,156,461	$ 2,111,109
Short-term Debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term Debt	1,363,300	1,363,300	1,363,300	1,363,300	1,373,300	1,373,300	1,373,300	1,373,300	1,373,300	1,373,300	1,343,300	1,343,300	1,343,300	1,363,300
Total Capitalization	3,432,567	3,457,118	3,447,988	3,461,843	3,485,161	3,464,637	3,482,757	3,496,272	3,481,586	3,490,638	3,486,874	3,480,119	3,499,761	3,474,409
Equity Ratio	*60.3%*	*60.6%*	*60.5%*	*60.6%*	*60.6%*	*60.4%*	*60.6%*	*60.7%*	*60.6%*	*60.7%*	*61.5%*	*61.4%*	*61.6%*	*60.8%*
Debt Ratio	*39.7%*	*39.4%*	*39.5%*	*39.4%*	*39.4%*	*39.6%*	*39.4%*	*39.3%*	*39.4%*	*39.3%*	*38.5%*	*38.6%*	*38.4%*	*39.2%*
Less:														
Equity Investments in Subsidiaries and Other Equity Adjustments														
ALLETE Enterprises	622,979	629,158	632,473	635,851	641,027	643,614	648,211	648,880	650,329	662,664	729,951	735,665	722,365	661,782
Real Estate	68,745	68,331	68,439	60,273	59,981	59,829	59,623	59,678	59,467	59,248	58,956	59,341	60,238	61,704
SWL&P	50,904	51,887	52,312	52,898	53,159	53,018	53,091	52,825	51,507	51,465	51,699	52,384	52,061	52,247
Other Subsidiaries	2,193	2,171	2,176	2,180	2,202	2,215	2,197	2,177	2,168	2,123	2,134	2,150	2,094	2,168
FAS 158	(21,271)	(21,189)	(26,622)	(26,493)	(26,396)	(26,298)	(26,200)	(26,103)	(26,005)	(25,907)	(25,810)	(25,712)	(26,528)	(25,426)
Equity Adjustments	723,550	730,358	728,778	724,708	729,973	732,378	736,923	737,457	737,465	749,593	816,931	823,828	810,229	752,475
Debt Allocated to Subsidiaries	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	147,800	117,800	117,800	117,800	140,877
Less: Corporate Commercial Paper	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: Outstanding Debt Expense														
Unamortized Debt Expense	7,737	7,649	7,562	7,478	7,975	7,893	7,818	7,736	7,654	7,572	7,490	7,414	7,332	7,639
Minnesota Power Capitalization														
Common Equity	1,345,717	1,363,460	1,355,910	1,373,834	1,381,887	1,358,959	1,372,534	1,385,515	1,370,820	1,367,745	1,326,643	1,312,991	1,346,232	1,358,634
Short-term Debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term Debt	1,207,763	1,207,851	1,207,938	1,208,022	1,217,525	1,217,607	1,217,682	1,217,764	1,217,846	1,217,928	1,218,010	1,218,086	1,218,168	1,214,784
Total Capitalization	$ 2,553,480	$ 2,571,310	$ 2,563,849	$ 2,581,857	$ 2,599,412	$ 2,576,566	$ 2,590,216	$ 2,603,279	$ 2,588,666	$ 2,585,673	$ 2,544,653	$ 2,531,076	$ 2,564,400	$ 2,573,418
Equity Ratio	*52.70%*	*53.03%*	*52.89%*	*53.21%*	*53.16%*	*52.74%*	*52.99%*	*53.22%*	*52.95%*	*52.90%*	*52.13%*	*51.87%*	*52.50%*	*52.79%*
Debt Ratio	*47.30%*	*46.97%*	*47.11%*	*46.79%*	*46.84%*	*47.26%*	*47.01%*	*46.78%*	*47.05%*	*47.10%*	*47.87%*	*48.13%*	*47.50%*	*47.21%*

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, 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
Public Response Comments

Docket No. E015/S-19-170

Dated this **31st** day of **July 2019**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_19-170_S-19-170
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_19-170_S-19-170
Patrick	Cutshall	pcutshall@allete.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_19-170_S-19-170
Ian	Dobson	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_19-170_S-19-170
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_19-170_S-19-170
Lori	Hoyum	lhoyum@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_19-170_S-19-170
Susan	Ludwig	sludwig@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_19-170_S-19-170
Susan	Romans	sromans@allete.com	Minnesota Power	30 West Superior Street Legal Dept Duulth, MN 55802	Electronic Service	No	OFF_SL_19-170_S-19-170
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_19-170_S-19-170