

**PUBLIC DOCUMENT
TRADE SECRET DATA EXCISED**



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April 17, 2018

ELECTRONIC FILING

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
350 Metro Square Building
121 Seventh Place East
St. Paul, MN 55101

**Re: In the Matter of the Application by Minnesota Power for Authority to
Increase Rates for Electric Services in Minnesota
MPUC Docket No. E015/GR-16-664**

Dear Mr. Wolf:

In its Answer to Minnesota Power's Petition for Reconsideration in the above-referenced docket, the Office of Attorney General - Residential Utilities and Antitrust Division ("OAG") submitted selective portions of Minnesota Power's responses to certain discovery the OAG issued after the record closed in this proceeding. As submitted, the OAG's selective attachments and associated briefing may give a misimpression of the nature of the Company's responses and communications. Minnesota Power therefore submits the entire set of discovery and responses to the Commission in the interest of transparency and to clarify the record.

The information and communications contained in the attachments to this letter constitutes information Minnesota Power considers to be trade secret, as defined by Minn. Stat. § 13.37, subd. 1(b). This information has important economic value to Minnesota Power as a result of this information remaining not public, and Minnesota Power has taken reasonable precautions to maintain its confidentiality. Furthermore, some of the attachments contain information that 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.

Yours truly,

David R. Moeller

Attachments
cc: Service List

IN THE MATTER OF THE APPLICATION OF
MINNESOTA POWER FOR AUTHORITY TO
INCREASE RATES FOR ELECTRIC UTILITY
SERVICE IN MINNESOTA

MPUC DOCKET No. E015/GR-16-664
OAH DOCKET No. 5-2500-34078

CERTIFICATE OF SERVICE

Jill N. Yeaman certifies that on the 17th day of April, 2018, on behalf of Minnesota Power, she efiled a true and correct copy of a **LETTER WITH COMPLETE IR RESPONSES** via eDockets (www.edockets.state.mn.us). Said document is also served via U.S. Mail or email as designated on the attached Service List on file with the Minnesota Public Utilities Commission in the above-referenced docket.

/s/ Jill N. Yeaman _____

Jill N. Yeaman

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_16-664_Official CC Service List
Lori	Andresen	info@sosbluewater.org	Save Our Sky Blue Waters	P.O. Box 3661 Duluth, Minnesota 55803	Electronic Service	No	OFF_SL_16-664_Official CC Service List
Richard	Baxendale		Boise Cascade Corporation	926 Harvard Avenue East Seattle, WA 98102	Paper Service	No	OFF_SL_16-664_Official CC Service List
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Michael J.	Bull	mbull@mncee.org	Center for Energy and Environment	212 Third Ave N Ste 560 Minneapolis, MN 55401	Electronic Service	No	OFF_SL_16-664_Official CC Service List
David	Cartella	David.Cartella@cliffsnr.com	Cliffs Natural Resources Inc.	200 Public Square Ste 3300 Cleveland, OH 44114-2315	Electronic Service	No	OFF_SL_16-664_Official CC Service List
Greg	Chandler	greg.chandler@upm.com	UPM Blandin Paper	115 SW First St Grand Rapids, MN 55744	Paper Service	No	OFF_SL_16-664_Official CC Service List
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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_16-664_Official CC Service List
Carl	Cronin	Regulatory.records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Electronic Service	No	OFF_SL_16-664_Official CC Service List
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Lisa	Daniels	lisadaniels@windustry.org	Windustry	201 Ridgewood Ave Minneapolis, MN 55403	Electronic Service	No	OFF_SL_16-664_Official CC Service List
Ian	Dobson	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_16-664_Official CC Service List
Ron	Elwood	relwood@mnlsp.org	Mid-Minnesota Legal Aid	2324 University Ave Ste 101 Saint Paul, MN 55114	Electronic Service	No	OFF_SL_16-664_Official CC Service List
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Bruce	Gerhardson	bgerhardson@otpc.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_16-664_Official CC Service List
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Sam	Hanson	shanson@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 South Eighth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_16-664_Official CC Service List
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Annete	Henkel	mui@mutilityinvestors.org	Minnesota Utility Investors	413 Wacouta Street #230 St. Paul, MN 55101	Electronic Service	No	OFF_SL_16-664_Official CC Service List
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Tolaver	Rapp	Tolaver.Rapp@cliffsnr.com	Cliffs Natural Resources	200 Public Square Suite 3400 Cleveland, OH 441142318	Electronic Service	No	OFF_SL_16-664_Official CC Service List
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Kevin	Walli	kwalli@fryberger.com	Fryberger, Buchanan, Smith & Frederick	380 St. Peter St Ste 710 St. Paul, MN 55102	Electronic Service	No	OFF_SL_16-664_Official CC Service List

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Cam	Winton	cwinton@mnychamber.com	Minnesota Chamber of Commerce	400 Robert Street North Suite 1500 St. Paul, Minnesota 55101	Electronic Service	No	OFF_SL_16-664_Official CC Service List
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**PUBLIC DOCUMENT
TRADE SECRET DATA EXCISED**

OAG No. 1164

**State Of Minnesota
Office Of The Attorney General
Utility Information Request**

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota **MPUC Docket No.** E015/GR-16-664

Requested from: Minnesota Power

By: Ryan Barlow **Date of Request:** February 27, 2018
Telephone: (651) 757-1473 **Due Date:** March 9, 2018

For all responses show amounts for Total Company and the Minnesota retail jurisdiction unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and non-regulated operations.

Reference: Compliance Filing dated February 26, 2018

Produce all written communication, including emails and other forms of electronic communication, exchanged between MP and Moody's since the deliberation was concluded.

RESPONSE:

Minnesota Power objects to this request as overly broad, unduly burdensome, and not reasonably calculated to lead to the discovery of admissible evidence. Notwithstanding these objections, the list below provides correspondence and attachments between Minnesota Power and Moody's since the rate case deliberation was concluded.

OAG 1164.01 Attach TS - Tax reform – Moody's Action

OAG 1164.02 Attach TS – Moody's Tax Reform Report January 2018

OAG 1164.03 Attach TS – Rate case

OAG 1164.04 Attach TS – Rate case correspondence

OAG 1164.05 Attach TS – Email correspondence

OAG 1164.06 Attach TS – Rate case information

OAG 1164.07 Attach TS – Rate case deficiency spreadsheet

Witness: Patrick L. Cutshall
Response by: Patrick L. Cutshall
Title: ALLETE Vice President & Corporate Treasurer
Department: Investments & Analysis
Telephone: 218-355-3529

**PUBLIC DOCUMENT
TRADE SECRET DATA EXCISED**

OAG 1164.08 Attach TS – Moody’s Draft Research for review

OAG 1164.09 Attach TS – Information for report

OAG 1164.10 Attach TS – ALLETE Issuer Comment

OAG 1164.11 Attach TS – Moody’s Draft Press Release for review

OAG 1164.12 Attach TS – ALLETE Press Release

OAG 1164.13 Attach TS – Moody’s Draft Research for review

OAG 1164.14 Attach TS – Comments to Moody’s

OAG 1164.15 Attach TS – Comments from Moody’s

OAG 1164.16 Attach TS – Email correspondence

The information contained in response to OAG 1164 constitutes information Minnesota Power considers to be trade secret, as defined by Minn. Stat. § 13.37, subd. 1(b). This information has important economic value to Minnesota Power as a result of this information remaining not public, and Minnesota Power has taken reasonable precautions to maintain its confidentiality. Furthermore, some of the attachments contain information that was purchased from Moody’s, 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.

Witness: Patrick L. Cutshall
Response by: Patrick L. Cutshall
Title: ALLETE Vice President & Corporate Treasurer
Department: Investments & Analysis
Telephone: 218-355-3529

OAG IR 1164.01 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

OAG IR 1164.02 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

OAG IR 1164.03 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

OAG IR 1164.04 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

OAG IR 1164.05 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

OAG IR 1164.06 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

OAG IR 1164.07 ATTACH
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OAG IR 1164.08 ATTACH
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OAG IR 1164.09 ATTACH
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ENTIRETY

OAG IR 1164.13 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

OAG IR 1164.14 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

OAG IR 1164.15 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

OAG IR 1164.16 ATTACH
IS TRADE SECRET IN ITS
ENTIRETY

**State Of Minnesota
Office Of The Attorney General
Utility Information Request**

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota **MPUC Docket No.** E015/GR-16-664

Requested from: Minnesota Power

By: Ryan Barlow **Date of Request:** February 27, 2018
Telephone: (651) 757-1473 **Due Date:** March 9, 2018

For all responses show amounts for Total Company and the Minnesota retail jurisdiction unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and non-regulated operations.

Reference: Compliance Filing dated February 26, 2018

Identify each instance in which MP communicated with Moody's since the deliberation of this rate case concluded. For each instance, identify the MP representatives that participated in the communication, and describe with particularity the substance of the communication

RESPONSE:

Minnesota Power objects to this request as overly broad, unduly burdensome, and not reasonably calculated to lead to the discovery of admissible evidence. Notwithstanding these objections, please see Minnesota Power's response to OAG IR 1164.

Witness: Patrick L. Cutshall
Response by: Patrick L. Cutshall
Title: ALLETE Vice President & Corporate Treasurer
Department: Investments & Analysis
Telephone: 218-355-3529

PUBLIC DOCUMENT
TRADE SECRET DATA EXCISED

OAG No. 1166

State Of Minnesota
Office Of The Attorney General
Utility Information Request

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota **MPUC Docket No.** E015/GR-16-664

Requested from: Minnesota Power

By: Ryan Barlow **Date of Request:** March 13, 2018
Telephone: (651) 757-1473 **Due Date:** March 23, 2018

For all responses show amounts for Total Company and the Minnesota retail jurisdiction unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and non-regulated operations.

Reference: S&P Global

Produce all written communication, including emails and other forms of electronic communication, exchanged between MP and S&P Global since the deliberation was concluded.

RESPONSE:

Minnesota Power objects to this request as overly broad, unduly burdensome, and not reasonably calculated to lead to the discovery of admissible evidence. Notwithstanding these objections, the list below provides correspondence and attachments between Minnesota Power and S&P since the rate case deliberation was concluded.

OAG 1166.01 Attach TS –Rate case correspondence

OAG 1166.02 Attach TS – S&P Draft Press Release for review

OAG 1166.03 Attach TS – S&P Press Release

OAG 1166.04 Attach TS – Email correspondence

OAG 1166.05 Attach TS – S&P Draft Press Release for review (2)

OAG 1166.06 Attach TS – Email correspondence

The information contained in response to OAG 1166 constitutes information Minnesota Power considers to be trade secret, as defined by Minn. Stat. § 13.37, subd. 1(b). This information has

Witness: Patrick L. Cutshall
Response by: Patrick L. Cutshall
Title: ALLETE Vice President & Corporate Treasurer
Department: Investments & Analysis
Telephone: 218-355-3529

PUBLIC DOCUMENT
TRADE SECRET DATA EXCISED

important economic value to Minnesota Power as a result of this information remaining not public, and Minnesota Power has taken reasonable precautions to maintain its confidentiality. Furthermore, some of the attachments contain information that was purchased from S&P, 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.

Witness: Patrick L. Cutshall
Response by: Patrick L. Cutshall
Title: ALLETE Vice President & Corporate Treasurer
Department: Investments & Analysis
Telephone: 218-355-3529

OAG IR 1166.01 Attach is
trade secret in its entirety

OAG IR 1166.02 Attach is
trade secret in its entirety

OAG IR 1166.03 Attach is
trade secret in its entirety

OAG IR 1166.04 Attach is
trade secret in its entirety

OAG IR 1166.05 Attach is
trade secret in its entirety

OAG IR 1166.06 Attach is
trade secret in its entirety

PUBLIC DOCUMENT

OAG No. 1166.1

**State Of Minnesota
Office Of The Attorney General
Utility Information Request**

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota. **MPUC Docket No.** E015/GR-16-664

Requested from: Minnesota Power

By: Ryan Barlow **Date of Request:** March 16, 2018
Telephone: (651) 757-1473 **Due Date:** March 28, 2018

For all responses show amounts for Total Company and the Minnesota retail jurisdiction unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and non-regulated operations.

[TRADE SECRET]

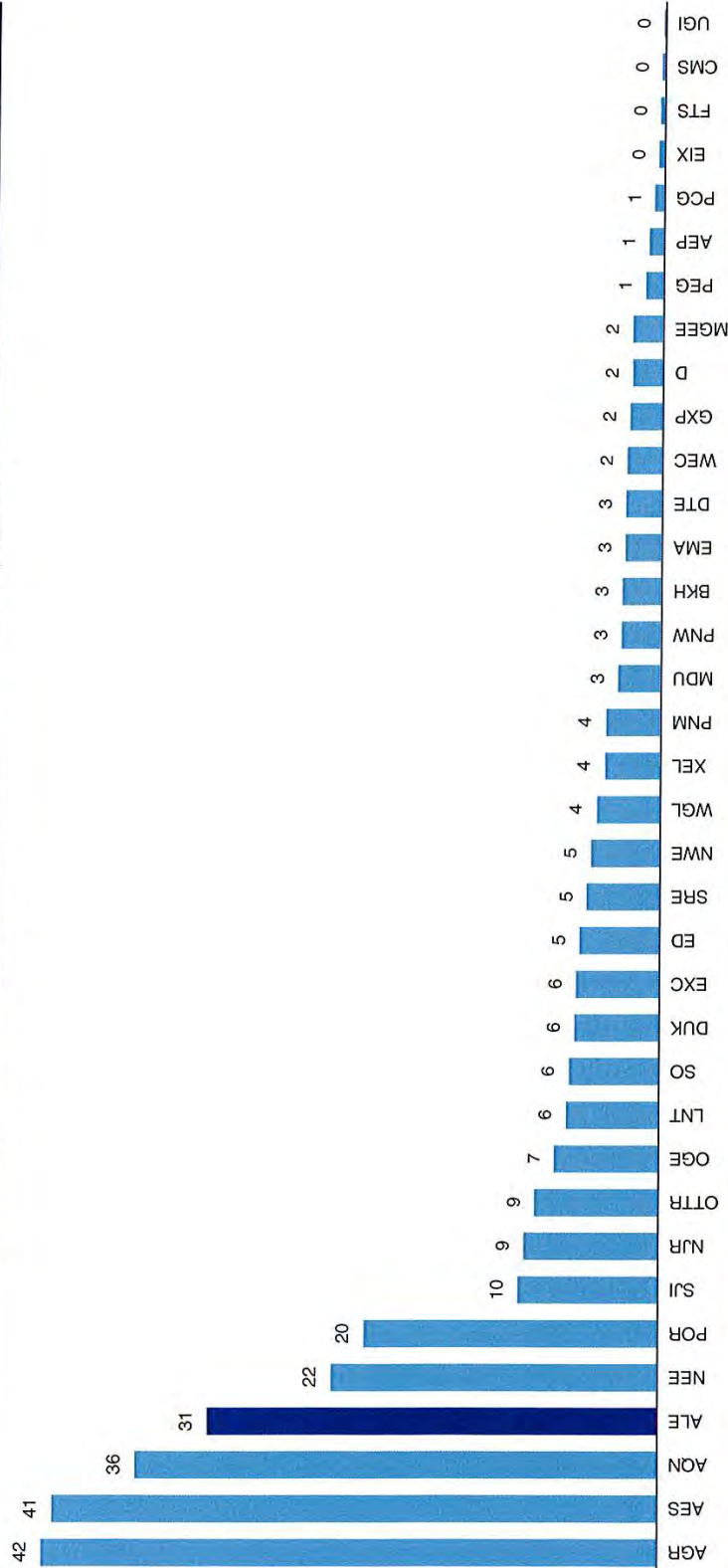
Witness: Patrick L. Cutshall
Response by: Patrick L. Cutshall
Title: ALLETE Vice President & Corporate Treasurer
Department: Investments & Analysis
Telephone: 218-355-3529

OAG IR 1166.1.01
Attach is Trade Secret
in its Entirety

Both Standard & Poor's and Moody's

Relative to Size, ALLETE is One of the Largest Investor in Renewables

Solar and Wind Capacity as a Percent of Market Cap (MW / US\$ Market Cap)¹



Capacity (GW) 6.29 2.80 1.53³ 1.07 15.96 0.72 0.20 0.31 0.14 0.45 0.57 2.68 3.07 2.05 1.29 1.49 0.12 0.15 0.85 0.11 0.16 0.24 0.07 0.19 0.47 0.47 0.15 1.03 0.04 0.33 0.35 0.15 0.09 0.05 0.04 0.01

Mkt Cap (\$bn) 15.0 6.8 4.3 3.5 71.7 3.6 2.1 3.3 1.6 6.3 8.9 43.4 52.9 35.9 23.5 29.7 2.5 3.3 22.1 2.8 5.3 8.6 2.7 7.4 18.3 19.0 6.4 47.4 1.9 24.9 32.3 20.6 19.5 13.8 12.1 7.5

Source: Company public filings, SNL, Press Releases, Bloomberg market data as of 22-Feb-18; Note: Includes both regulated and unregulated wind and solar net generation capacity. Capacity includes net operating capacity as of 31-Dec-2016 for all companies, except AES (31-Oct-2017), AGR (30-Sep-2017), PNM (30-Sep-2017) and SJI (30-Sep-2017). AON, EMA and FTS Market Cap converted to USD using \$0.79 USD/CAD exchange rate. ¹ Calculated as Solar and Wind Net Operating Capacity / Market Cap. Excludes Development Pipeline. ² Reflects undisturbed share price as of 18-Nov-2016. ³ Pro forma for 25% acquisition of Atlantica Yield. Ownership stake represents 435.5MW.



AN ALLETE COMPANY

Susan Ludwig
Policy Manager
218-355-3586
sludwig@mnpower.com

March 2, 2018

VIA ELECTRONIC FILING

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

Re: Minnesota Power's Initial Filing in the Commission
Investigation into the Effects of the 2017 Federal Tax Act
Docket No. E, G-999/CI-17-895

Dear Mr. Wolf:

Minnesota Power respectfully submits its Initial Filing to the Minnesota Public Utilities Commission regarding the *Notice of Request for Information, Commission Planning Meeting, and Subsequent Comment Period* issued by the Commission on January 19, 2018 in the above-referenced Docket. Please contact me at the number above if you have any questions about this filing.

Yours truly,

A handwritten signature in black ink, appearing to read "Susan Ludwig".

Susan Ludwig

SL:sr
Attach

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

In the Matter of a Commission Investigation into Docket No. E, G-999/CI-17-895
the Effects on Electric and Natural Gas Utility
Rates and Services of the 2017 Federal Tax Act **MINNESOTA POWER INITIAL FILING**

I. INTRODUCTION

Minnesota Power (“the Company”) respectfully submits the following information to the Minnesota Public Utilities Commission (“Commission”) regarding the Notice of Request for Information issued by the Commission on January 19, 2018.

The Commission requested that all Rate-Regulated Energy Utilities provide in their Initial Filings:

- A. An estimate of the effect of the lower federal income tax rate on the utility’s Minnesota jurisdictional revenue requirements and rates assuming all else is currently equal to the utility’s revenue requirement (a) in its most recent rate case, (b) in its most recent jurisdictional annual report (“JAR”) for calendar year 2016, and (c) in its pro forma revenue requirements estimates for calendar-years 2017 and 2018.
- B. An analysis of any other aspects of the 2017 Federal Tax Act that may affect the utility including any anticipated reduction in accumulated deferred income tax (“ADIT”) liabilities and assets.
- C. An explanation of the utility’s proposal to unwind and refund over-collected ADIT.
- D. An analysis of how any changes in tax law will allow the expensing of capital expenditures and how that will impact rates.
- E. An estimate of the effect of the Tax Act on any other rates and riders currently in effect.
- F. Other topics.

II. MINNESOTA POWER'S RESPONSE

A. Effect of the lower income tax rate

The 2017 Federal Tax Act ("tax legislation") included sweeping changes to the United States tax code, including many changes which will impact Minnesota Power. The most significant change in the tax legislation impacting customer rates is the reduction in the federal corporate income tax rate from 35 percent to 21 percent.

In Attachment 1, the Company provides the estimated impact of the tax legislation on its 2017 Minnesota jurisdictional revenue requirements. The impact of the lower federal income tax rate on the 2017 cost of service, along with the benefit from refunding over-collected ADIT and corresponding impacts on rate base, results in a reduction in revenue requirements of \$23,637,241.

The tax legislation changed many other provisions, including the tax deductibility of several business deductions, the taxability of contributions in aid of construction, and some employee fringe benefit expenses. The Company does not expect a material impact from these changes and therefore has not included any increase in cost of service from these minor changes.

It is worth noting that due to the complexity of the tax law changes, the Securities and Exchange Commission issued Staff Accounting Bulletin 118 in December 2017, which provides a full year for companies to complete the analyses and accounting for the tax legislation. Public companies issuing a 2017 Form 10-K were required to state whether their accounting for the tax legislation is considered: (1) final, (2) an estimate and not yet final, or (3) not yet able to determine a reasonable estimate and therefore the Form 10-K reflects the previous tax laws. ALLETE's Form 10K was issued as an estimate. Given the recognized complexity and compressed time frame, the Company respectfully requests the ability to make any needed corrections to the revenue reduction amount presented in Attachment 1 for subsequent information or knowledge gained after this filing date.

Due to the timing of the federal tax legislation, Minnesota Power is uniquely situated to incorporate the impacts into its 2017 jurisdictional revenue requirements. The Company is currently awaiting a rate case written order in Docket No. E015/GR-16-664. The basis for the tax legislation impact in Attachment 1 is the 2017 revenue requirements as provided by the Company in Supplemental Testimony and as modified by recent Commission decisions in the rate case. The

2017 estimated revenue requirements utilized in this calculation have been vetted by multiple stakeholders, and therefore the impact of the tax legislation on these 2017 amounts provides the most accurate portrayal of the impact to the Company.

Minnesota Power believes it is most applicable to calculate the tax legislation impacts utilizing amounts from the current rate case and it is not appropriate to evaluate revenue requirements from the 2016 Minnesota jurisdictional report or from the 2018 budget. The 2016 JAR includes outdated information, given that the Company has since filed a rate case with a 2017 test year, and therefore the Company has not evaluated the effect of the lower federal income tax on the 2016 data. Similarly, a 2018 pro forma revenue requirement estimate would not provide the necessary information, since the 2018 budget was developed prior to any outcomes in the current rate case. Furthermore, the Company has not developed a 2018 budget that includes sufficient detail to calculate impacts at the Minnesota jurisdictional level. Because of this, the tax legislation impact on 2018 pro forma data has not been evaluated. The Company anticipates implementing final rates in the current rate case later in 2018.

B. Effect of the reduction in ADIT and other impacts of tax legislation

The reduction in the net ADIT balance, or “excess deferred income taxes” created by the federal income tax rate reduction, has been recorded as appropriate as a regulatory asset or liability and will be passed back to Minnesota Power’s customers over time. Under the tax legislation, the 1986 normalization requirements have been continued, requiring the tax benefit from the excess deferred income taxes related to assets be spread over the remaining lives of the assets that gave rise to the accumulated deferred income taxes. Most of Minnesota Power’s excess deferred income taxes are subject to the normalization method of accounting.

The remaining excess deferred income taxes may be spread over a period yet to be determined. As shown on Attachment 4, Minnesota Power is proposing to spread these excess deferred income taxes over a ten-year period. The Company believes ten years is reasonable due to the relative size of the liability when considered with other cash flow requirements. In its 1987 rate case, Minnesota Power agreed to spread these excess deferred income taxes over a two-year period, however they were much smaller relative to the Company’s annual cash flows requirements. Attachment 1 includes the tax benefit of the normalized excess deferred income taxes and remaining excess deferred income taxes as a reduction to revenue requirements.

As the excess deferred income taxes are refunded to customers, the net deferred tax liability decreases, increasing rate base. The impact from the refunding of the excess deferred taxes on rate base is also included in Attachment 1.

Another impact of the tax legislation, not reflected in Attachment 1, is on the discount rate used to calculate the Company's allowed return on equity ("ROE") using the discounted cash flow ("DCF") method. The lower federal tax rate increases the discount rate used in the DCF calculation because it causes the after-tax cost of debt to increase, which is embedded in the discount rate. While Minnesota Power has not had time to fully analyze the impact of the lower tax rate on the DCF method, it believes the impact will be significant. However, the Company regards the issue of allowed ROE to be better handled in a rate case docket and has not included proposals in this filing to address the issue.

C. Minnesota Power's Proposal

The Company recommends the Commission adopt a holistic approach for each utility when deciding on the best way to flow tax impacts to customers with the understanding that the tax legislation will have impacts beyond a simple change in tax rates. For example, Minnesota Power, along with other utilities, is already seeing a negative impact to financial coverages due to the tax legislation. This is because the lower tax rate will reduce cash collected from customers, while the loss of bonus depreciation will reduce tax deferrals, which has benefitted the cash position.

The impact for Minnesota Power is magnified, however, due to a recent rate case decision which is also negatively impacting financial coverages as calculated by the rating agencies Standard & Poor's and Moody's. In recent weeks, both rating agencies have issued reports on the Company and revised their outlook for ALLETE, Inc. to negative.¹ Both rating agencies cited the general rate case outcome, along with the effects of tax reform, as reasons for the credit negative outlook. Moody's stated that the rate case outcome points to a less constructive regulatory relationship between Minnesota Power and the Commission, and further stated that the Commission's decision to deny Minnesota Power pre-paid pension cost recovery when other utilities in the state recover those same costs appears inconsistent. Two of Moody's scorecard factors led to the negative outlook for ALLETE, Inc.: The Regulatory Framework factor, based on "Consistency and Predictability of Regulation," and the Financial Strength factor. Moody's

¹ These reports were submitted in this Docket on February 8, February 9, February 21, and February 26, 2018.

linked these two factors, saying, “MP’s inability to recover certain expenses already incurred will make it difficult for it to earn its below average allowed equity return without reducing costs elsewhere.” A future downgrade of ALLETE’s credit ratings will lead to a higher cost of capital which will negatively impact customers.

While the Company agrees that impacts of the tax legislation should flow to customers, these impacts should not be treated in isolation from other operating costs, and the Company’s ability to earn its allowed ROE should also be considered. While the Commission approved an allowed ROE of 9.25% at a hearing on January 18, 2018, many costs were disallowed, including recovery of pre-paid pension cost as previously noted. Minnesota Power has calculated that the effective ROE based on the outcome of the rate case for the 2017 test year is only 8.14%. Consequently, the Company has recently announced cost-cutting plans in an attempt to earn its 9.25% allowed ROE, and on February 19, 2018, about 1,100 Minnesota Power employees and 200 ALLETE corporate employees were notified that staff reductions through a combination of attrition and layoffs would begin immediately and in the upcoming months.² The Company believes it is unfair for it to fully bear the burden of extreme cost-cutting measures on the one hand, while flowing all benefits from the tax legislation to customers on the other. So long as Minnesota Power is not over-earning its allowed ROE, customer rates should be deemed to be just and reasonable.

The Company also believes that other tax-related cost changes should be considered. For example, the Minnesota Legislative Session has just begun and Minnesota legislators are proposing to reconfigure the state tax code.³ Any changes to state corporate income or property taxes should also flow to customers. One method to flow these net impacts to customers could be through deferred accounting, similar to the method adopted in Xcel Energy’s 2016 rate case settlement.⁴ Regardless of the method, these cost changes should also be addressed.

Minnesota Power proposes a straightforward method to flow federal and state tax impacts to customers, which considers the variability of all of these factors, and ensures customer rates will

² “Allete mulls layoffs, leaving jobs open.” *Duluth News Tribune*, February 22, 2018.

³ Van Berkel, Jessie, “Tax changes are top priority as Minnesota Legislature convenes Tuesday.” *Star Tribune* February 17, 2018.

⁴ The Settling Parties agreed that Xcel would defer as a regulatory asset in 2016 an amount equal to the difference between the property tax expense approved for recovery in base rates and the actual 2016 property tax expense, and amortize the deferral evenly over a two-year period in 2018 and 2019. See Docket No. E002/GR-15-826, Findings of Fact, Conclusion, and Order, dated June 12, 2017, at Order Point 7 on page 12.

remain just and reasonable. In short, the Company proposes to use the net tax benefits from all tax changes as an offset to other regulated costs, to the extent Minnesota Power is able to earn its allowed ROE, and flow the remainder of the benefits to customers through a new tax rider.

The proposal would work like this:

- a) Minnesota Power has calculated the impact of the federal tax legislation on its 2017 Minnesota jurisdictional revenue requirements in Attachment 1. This amount, currently at \$23,637,241, could be raised or lowered, depending on future state or federal tax changes.
- b) The Company would establish a new tax rider.
- c) Each year in May, beginning in 2019, the Company would use its Electric Jurisdictional Annual Report to determine the previous year's actual ROE. If the actual ROE is lower than the allowed ROE awarded in Minnesota Power's most recent rate case (currently approved on January 18, 2018 at 9.25% in Docket No. E015/GR-16-664), Minnesota Power would retain the amount of tax benefits in (a) above. If the actual ROE is higher than the allowed ROE, Minnesota Power would credit customers an amount of the tax benefits in (a) that are beyond what is required for the Company to earn its allowed ROE in the previous year.
- d) The rider would be updated annually, calculated based on the previous year's Electric Jurisdictional Annual Report, and would be terminated when the Company files its next rate case.

While the Company realizes some stakeholders will advocate for a return of all tax impacts in isolation of other variables, Minnesota Power believes this inclusive proposal would be a win-win for customers and the Company. Customers would win from tax benefits flowing through the tax rider, from a lower cost of capital in the future, and from being served by a healthier company. Minnesota Power would win from stronger credit metrics due to improved cash flows and from possibly being able to stave off a downgrade in its credit ratings.

An inclusive approach to flowing tax benefits to customers is also being considered in other states. For example, the Illinois Commerce Commission issued an Order on January 25, 2018, directing utilities to either file revised tariffs reflecting the changed federal tax rate or show cause

why the rates should not be lowered to reflect the lower tax burden. The January 25 Order, included as Attachment 8, states, “For example, a company might show cause by demonstrating that the company is not over-collecting from ratepayers, notwithstanding the changes in the tax laws; or that the tax issue is more appropriately addressed in another currently docketed proceeding.”⁵ Minnesota Power requests the Commission to adopt a similar approach, which allows for a broader consideration of factors impacting the utility.

D. Expensing capital investments

The federal legislation included a provision for expensing capital investments for many companies. However, electric utilities were exempt from this provision and, consequently, this provision will have less impact on customer rates. The relief from expensing of capital investments requires utilities to use the standard Modified Accelerated Recovery System (“MACRS”) depreciation schedules, which will create lower deferred tax liabilities in the future, increasing rate base. Although Minnesota Power’s 2017 test year information utilized the allowable tax depreciation method in effect during 2017, which was 50 percent bonus depreciation, the tax depreciation was not recast to utilize MACRS for these jurisdictional amounts. The Company believes this approach is appropriate, as the tax depreciation method does not change the overall tax expense (current expense plus deferred expense) recovered in cost of service. It does, however, create the final accumulated deferred tax balances at December 31, 2017, which were re-measured to determine the amount of excess deferred taxes needing to be refunded to customers. Therefore, updated tax expense is not impacted by the tax depreciation method, and the actual excess deferred tax amount at December 31, 2017, has been utilized for the tax refunding calculation.

E. Effect of tax legislation on riders

The Company expects the tax legislation to have a minor impact on riders. Since all of the excess deferred income taxes have been accounted for in Attachment 1, the riders will not need to be adjusted for this issue. Instead, the riders will need to be updated with the new lower federal tax rate as of January 1, 2018. An example of the update to a generic rider project is shown in Attachment 6 and the change to the pre-tax rate of return is shown in Attachment 7. Minnesota Power proposes to make this update in its next filing of each rider.

⁵ See Attachment 8, page 3.

F. Other topics

In its January 30 Compliance Filing in this Docket, the Company noted that it would provide a copy of ALLETE's 2017 Annual Report (Form 10-K) when it was available. That report, included as Attachment 9, was issued on February 15, 2018, and includes a discussion of the federal tax legislation on page 28.

III. CONCLUSION

The Company recommends the Commission adopt a holistic approach for each utility, considering each utility's rate case situation and other unique factors, when determining a method to flow tax savings to customers. Specifically, the Company proposes to use the net tax benefits from all tax changes as an offset to other regulated costs, to the extent Minnesota Power is able to earn its allowed ROE, and flow the remainder of the benefits to customers through a new tax rider. Due to the complexity involved, the Company also requests the ability to make any needed corrections to the revenue reduction amount presented in Attachment 1 for subsequent information or knowledge gained after this filing date.

Minnesota Power appreciates the opportunity to provide a response to the Commission notice and looks forward to working with the Commission and other stakeholders to ensure tax changes are handled appropriately. Please contact me at the number above if you have any questions about this filing.

Dated: March 2, 2018

Yours Truly,



Susan Ludwig
Policy Manager
Minnesota Power
30 West Superior Street
Duluth, MN 55802
(218) 355-3586
sludwig@mnpower.com

Minnesota Power
Impact of Tax Rate Change on 2017 Test Year Cost of Service Information
Minnesota Jurisdiction

<u>Line</u>	<u>Old Tax Rate</u> (a)	<u>New Tax Rate</u> (b)	<u>Change</u> (c)
<u>Current and Deferred Federal Income Tax portion</u>			
1 Expected Gross Rate Case Revenue Deficiency	\$ 12,619,611	1/ \$ (6,393,858)	2/ \$ (19,013,469)
<u>Excess Deferred Tax portion</u>			
2 Excess Deferred Tax benefit			\$ (5,444,448) 3/
3 Grossup factor for Revenue Requirement			1.40335 4/
4 Excess Deferred Tax Revenue Requirement Adjustment			\$ (7,640,466)
<u>Rate Base - ADIT portion</u>			
5 Change in Average Rate Base			\$ 2,722,224 3/
6 Authorized ROR			7.064% 5/
7 Grossup factor for Revenue Requirement			1.40335 4/
8 ADIT Revenue Requirement Adjustment			\$ 269,861
<u>EITE portion</u>			
9 Revenue in EITE Docket	\$ (15,500,000)	6/ \$ (15,500,000)	6/
10 Composite Tax Rates	0.41370	4/ 0.28742	4/
11 Income Taxes	\$ (6,412,350)	\$ (4,455,010)	\$ 1,957,340
12 Grossup factor for Revenue Requirement			1.40335 4/
13 Change in Revenue Requirements			\$ 2,746,833
14 Total Change in Revenue Requirements			<u>\$ (23,637,241)</u>

- 1/ Minnesota Power Compliance Filing, 1/23/2018, Docket E015/GR-16-664.
Also, refer to Commission Decision Schedules 1-3 submitted to MPUC and DOC via email on 2/12/18.
And also refer to Attachment 2, Modified Commission Decision Schedule 1, page 1, column (e), line 7.
- 2/ Refer to Attachment 2, Modified Commission Decision Schedule 1, page 1, column (f), line 7.
- 3/ Refer to Attachment 4.
- 4/ Refer to Attachment 5.
- 5/ Refer to Commission Decision Schedule 4 submitted to MPUC and DOC via email on 2/12/18.
- 6/ Minnesota Power Compliance Filing, 2/1/2018, Docket E015/M-16-564, Attachment C, page 1, line 3.

Minnesota Power
Revenue Deficiency Summary-Minnesota Jurisdiction
Test Year Ending December 31, 2017

Line No.	Description	MP Initial Filing 1/	MP Supplemental Filing 2/	MP Rebuttal	MP Surrebuttal	MPUC Decision	MPUC Decision with New Tax Rate 21/
		(a)	(b)	(c)	(d)	(e)	(f)
1	Average Rate Base	\$2,077,996,785	\$2,091,514,913	\$2,092,387,441 3/	\$2,092,387,441 3/	\$2,051,528,097 13/	\$2,051,509,416 17/
2	Rate of Return	7.602%	7.602%	7.548% 4/	7.548% 4/	7.064% 14/	7.064% 14/
3	Required Operating Income	\$157,969,316	\$158,996,964	\$157,933,404 5/	\$157,933,404 5/	\$144,919,945 5/	\$144,918,625 5/
4	Operating Income	\$125,650,302	\$136,266,658	\$141,700,385 6/	\$129,090,471 11/	\$137,521,065 15/	\$149,474,764 18/
5	Income Deficiency	\$32,319,014	\$22,730,306	\$16,233,019 7/	\$28,842,933 7/	\$7,398,880 7/	(\$4,556,139) 7/
6	Gross Revenue Conversion Factor	1.705611	1.705611	1.705611	1.705611	1.705611	1.403350 19/
7	Gross Revenue Deficiency (Surplus)	\$55,123,680	\$38,769,070	\$27,687,216 8/	\$49,194,824 8/	\$12,619,611 8/	(\$6,393,858) 8/
8	Increase (or decrease) in MP's Proposed Gross Revenue Deficiency		(\$16,354,610) 9/	(\$11,081,854) 10/	\$21,507,608 12/	(\$36,575,212) 16/	(\$19,013,469) 20/

1/ MP Exhibit No. 6 (MAP), Schedule A-1, column (d).

2/ MP Exhibit No. 19 (SJS), Supplemental Schedule C-1, Page 1 of 46.

3/ MP Exhibit No. 86 (MAP), Rebuttal Schedule 3, Rate Base Summary and Adjustments, page 1, column (c).

4/ MP Exhibit No. 38 (PLC), Rebuttal Testimony, Schedule 1.

5/ Lines (1) x (2).

6/ MP Exhibit No. 86 (MAP), Rebuttal Schedule 6, Operating Income Summary and Adjustments, page 1, column (e), row 40.

7/ Lines (3) - (4).

8/ Lines (5) X (6).

9/ Line (7) Columns (b) - (a).

10/ Line (7) Columns (c) - (b).

11/ MP Exhibit No. 87 (MAP), Surrebuttal Schedule 3, Operating Income Summary and Adjustments, page 1, column (g), row 40.

12/ Line (7) Columns (d) - (c).

13/ Commission Decision, Schedule 2, page 1, column (g), line 41.

14/ Commission Decision Options 2012, 2015 and Sieben motion 9.25% ROE. See also Commission Decision, Schedule 4.

15/ Commission Decision, Schedule 3, page 1, column (i), line 40.

16/ Line (7) Columns (e) - (d).

17/ Attachment 2, Modified Commission Decision Schedule 2, page 1, column (g), line 41.

18/ Attachment 2, Modified Commission Decision Schedule 3, page 1, column (i), line 40.

19/ Attachment 5.

20/ Line (7) Columns (f) - (e).

21/ Includes adjustment to current federal income taxes for all rate making adjustments by changing blended federal income tax rate from 31.57% to 18.942% on Attachment 2, Modified Commission Decision Schedule 3, line 34. Also includes changes to current and deferred income taxes on Supplemental Direct position as shown in column (ai). See also Attachment 5 for calculation of old and new effective tax rates. Adjustment also includes minor changes for interest synchronization and cash working capital.

Docket No. E, G-999/CI-17-895

Attachment 2

Modified Commission Decision Schedule 2

Page 1 of 4

Minnesota Power
Rate Base Summary-Minnesota Jurisdictional

Line No.	Description	MP Initial Filing 1/	MP Supplemental Adjustments 2/	MP Supplemental Position 3/	MP Rebuttal Adjustments 4/	MP Rebuttal & Surrebuttal Position 5/	MPUC Adjustments 6/	MPUC Decision with new Tax Rate 7/
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
PLANT IN SERVICE								
1	Steam	\$1,366,487,892	\$11,065,152	\$1,377,553,044	\$0	\$1,377,553,044	\$0	\$1,377,553,044
2	Hydro	\$160,471,884	\$1,276,112	\$161,747,996	\$0	\$161,747,996	\$0	\$161,747,996
3	Wind	\$677,134,165	\$5,565,396	\$682,699,561	\$0	\$682,699,561	\$0	\$682,699,561
4	Transmission	\$603,441,893	\$5,391,218	\$608,833,111	(\$320,286)	\$608,512,825	(\$1,810,661)	\$606,702,164
5	Distribution	\$555,340,726	\$21,029	\$555,361,755	\$0	\$555,361,755	\$0	\$555,361,755
6	General	\$172,267,729	\$965,951	\$173,233,680	\$0	\$173,233,680	\$0	\$173,233,680
7	Intangible	\$66,633,023	\$373,629	\$67,006,652	\$0	\$67,006,652	\$0	\$67,006,652
8	Total Plant In Service	\$3,601,777,312	\$24,658,487	\$3,626,435,799	(\$320,286)	\$3,626,115,513	(\$1,810,661)	\$3,624,304,852
RESERVE FOR DEPRECIATION								
9	Steam	\$571,532,221	\$4,639,789	\$576,172,010	(\$846,393)	\$575,325,617	\$2,614,667	\$577,940,284
10	Hydro	\$22,173,792	\$176,477	\$22,350,269	\$0	\$22,350,269	\$0	\$22,350,269
11	Wind	\$77,319,107	\$655,214	\$77,974,321	\$0	\$77,974,321	\$0	\$77,974,321
12	Transmission	\$195,592,648	\$1,753,749	\$197,346,397	(\$6,352)	\$197,340,045	(\$11,904)	\$197,328,141
13	Distribution	\$260,817,688	\$11,911	\$260,829,599	\$0	\$260,829,599	\$0	\$260,829,599
14	General	\$85,242,773	\$477,979	\$85,720,752	\$0	\$85,720,752	\$0	\$85,720,752
15	Intangible	\$43,484,016	\$243,826	\$43,727,842	\$0	\$43,727,842	\$0	\$43,727,842
16	Total Reserve For Depreciation	\$1,256,162,245	\$7,958,945	\$1,264,121,190	(\$852,745)	\$1,263,268,445	\$2,602,763	\$1,265,871,208
NET PLANT IN SERVICE								
17	Steam	\$794,955,671	\$6,425,363	\$801,381,034	\$846,393	\$802,227,427	(\$2,614,667)	\$799,612,760
18	Hydro	\$138,298,092	\$1,099,635	\$139,397,727	\$0	\$139,397,727	\$0	\$139,397,727
19	Wind	\$599,815,058	\$4,910,182	\$604,725,240	\$0	\$604,725,240	\$0	\$604,725,240
20	Transmission	\$407,849,245	\$3,637,469	\$411,486,714	(\$313,934)	\$411,172,780	(\$1,798,757)	\$409,374,023
21	Distribution	\$294,523,038	\$9,118	\$294,532,156	\$0	\$294,532,156	\$0	\$294,532,156
22	General	\$87,024,956	\$487,972	\$87,512,928	\$0	\$87,512,928	\$0	\$87,512,928
23	Intangible	\$23,149,007	\$129,803	\$23,278,810	\$0	\$23,278,810	\$0	\$23,278,810
24	Total Net Plant In Service	\$2,345,615,067	\$16,899,542	\$2,362,314,609	\$532,459	\$2,362,847,068	(\$4,413,424)	\$2,358,433,644
25	Plant Held for Future Use	\$0	\$0	\$0	\$0	\$0	\$0	\$0
26	Construction Work in Progress	\$21,783,521	\$152,815	\$21,936,336	\$0	\$21,936,336	\$0	\$21,936,336
Working Capital								
27	Fuel Inventory	\$37,598,166	\$293,037	\$37,891,203	\$0	\$37,891,203	\$0	\$37,891,203
28	Materials & Supplies	\$25,251,699	\$158,769	\$25,410,468	\$0	\$25,410,468	\$0	\$25,410,468
29	Prepayments	\$89,874,343	\$564,148	\$90,438,491	\$0	\$90,438,491	(\$60,041,948)	\$30,396,543
30	Cash Working Capital	(\$26,787,297)	(\$91,230)	(\$26,878,527)	(\$112,050)	(\$26,990,577)	(\$106,477)	(\$27,097,054)
31	Total Working Capital	\$125,936,911	\$924,724	\$126,861,635	(\$112,050)	\$126,749,585	(\$60,148,425)	\$66,601,160
ADD:								
32	Asset Retirement Obligation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
33	Workers Comp Deposit	\$74,076	\$416	\$74,492	\$0	\$74,492	\$0	\$74,492
34	Unamortized WPPi Trans. Delivery Charge	(\$2,131,988)	(\$18,905)	(\$2,150,893)	\$0	(\$2,150,893)	\$0	(\$2,150,893)
35	Unamortized UMWI Transaction Costs	\$1,412,542	\$12,525	\$1,425,067	\$0	\$1,425,067	\$0	\$1,425,067
DEDUCT:								
36	Customer Advances	\$1,790,064	\$0	\$1,790,064	\$0	\$1,790,064	\$0	\$1,790,064
37	Customer Deposits	\$240,131	\$0	\$240,131	\$0	\$240,131	\$0	\$240,131
38	Other Deferred Credits - Hibbard	\$283,816	\$2,298	\$286,114	\$0	\$286,114	\$0	\$286,114
39	Wind Performance Deposit	\$124,840	\$1,027	\$125,867	\$0	\$125,867	\$0	\$125,867
40	Accumulated Deferred Income Taxes	\$412,254,490	\$4,249,669	\$416,504,159	(\$452,121)	\$416,052,038	(\$23,683,824)	\$392,368,214
41	TOTAL AVERAGE RATE BASE	\$2,077,996,788	\$13,518,123	\$2,091,514,911	\$872,530	\$2,092,387,441	(\$40,878,025)	\$2,051,509,416

1/ MP Exhibit No. 6 (MAP), Schedule A-5, column 6.

2/ Columns (c) - (a).

3/ MP Exhibit No. 19 (MAP), Supplemental Schedule A-5, page 1, column 6.

4/ MP Exhibit No. 86 (MAP), Rebuttal Schedule 3, page 1, column (d).

5/ Columns (c) + (d).

6/ Attachment 2, Modified Commission Decision Schedule 2, page 2, column (k).

7/ Columns (e) + (f).

Minnesota Power
Rate Base Adjustments - Minnesota Jurisdiction

Line No.	Description	MPUC Adjustments										
		Straight River 115kV Trans Cap. Proj. 1/	Hibbard Extended Depreciation Life 2/	Production Tax Credits 3/	Cash Working Capital 4/	Total MP Rebuttal Adjustments 5/	Prorata ADIT 6/	Boswell 1 & 2 Depreciation Life 7/	Transmission Capital Projects 8/	Prepaid Pension Asset 9/	Cash Working Capital with new tax rate 10/	Total MPUC Adjustments 11/
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
PLANT IN SERVICE												
1	Steam	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	Hydro	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	Wind	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Transmission	(\$320,286)	\$0	\$0	\$0	(\$320,286)	\$0	\$0	(\$1,810,661)	\$0	\$0	(\$1,810,661)
5	Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	General	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7	Intangible	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	Total Plant In Service	(\$320,286)	\$0	\$0	\$0	(\$320,286)	\$0	\$0	(\$1,810,661)	\$0	\$0	(\$1,810,661)
RESERVE FOR DEPRECIATION												
9	Steam	\$0	(\$846,393)	\$0	\$0	(\$846,393)	\$0	\$2,614,667	\$0	\$0	\$0	\$2,614,667
10	Hydro	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
11	Wind	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
12	Transmission	(\$6,352)	\$0	\$0	\$0	(\$6,352)	\$0	\$0	(\$11,904)	\$0	\$0	(\$11,904)
13	Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	General	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Intangible	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
16	Total Reserve For Depreciator	(\$6,352)	(\$846,393)	\$0	\$0	(\$852,745)	\$0	\$2,614,667	(\$11,904)	\$0	\$0	\$2,602,763
NET PLANT IN SERVICE												
17	Steam	\$0	\$846,393	\$0	\$0	\$846,393	\$0	(\$2,614,667)	\$0	\$0	\$0	(\$2,614,667)
18	Hydro	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
19	Wind	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	Transmission	(\$313,934)	\$0	\$0	\$0	(\$313,934)	\$0	\$0	(\$1,798,757)	\$0	\$0	(\$1,798,757)
21	Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
22	General	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
23	Intangible	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
24	Total Net Plant In Service	(\$313,934)	\$846,393	\$0	\$0	\$532,459	\$0	(\$2,614,667)	(\$1,798,757)	\$0	\$0	(\$4,413,424)
25	Plant Held for Future Use	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
26	Construction Work in Progress	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Working Capital												
27	Fuel Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
28	Materials & Supplies	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
29	Prepayments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$60,041,948)	\$0	(\$60,041,948)
30	Cash Working Capital	\$0	\$0	\$0	(\$112,050)	(\$112,050)	\$0	\$0	\$0	\$0	(\$106,477)	(\$106,477)
31	Total Working Capital	\$0	\$0	\$0	(\$112,050)	(\$112,050)	\$0	\$0	\$0	(\$60,041,948)	(\$106,477)	(\$60,148,425)
ADD:												
32	Asset Retirement Obligation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
33	Workers Comp Deposit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
34	Unamortized WPPi Trans. Delivery Ch	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
35	Unamortized UMWII Transaction Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
DEDUCT:												
36	Customer Advances	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
37	Customer Deposits	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
38	Other Deferred Credits - Hibbard	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
39	Wind Performance Deposit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
40	Accumulated Deferred Income Taxes	(\$71,031)	\$350,153	(\$731,243)	\$0	(\$452,121)	\$9,267,028	(\$1,081,688)	(\$381,974)	(\$31,487,190)	\$0	(\$23,683,824)
40	TOTAL AVERAGE RATE BASE	(\$242,903)	\$496,240	\$731,243	(\$112,050)	\$872,530	(\$9,267,028)	(\$1,532,979)	(\$1,416,783)	(\$28,554,758)	(\$106,477)	(\$40,878,025)

1/ MAP Rebuttal Schedule 1.
2/ DOC Ex. 628 at Section VII (Campbell Direct) and NAC-14.
3/ Rebuttal Testimony Jamie L. Jago
4/ MAP Rebuttal Schedule 3, page 3. Will be updated following MPUC decision.
5/ Sum of Columns (a) through (d).
6/ MAP Supplemental Direct Schedule A-5, page 2, (Col 10 + Col 12) x -1 x Jurisdictional 85.567%; (-9,301,836 + -1,528,306) x -1 x 85.567%
SJS Supplemental Direct Schedule C-1, page 15, Line 23. Net ADIT MN Juris/Total Company = 416,504,159 / 486,756,728 = 85.567%
7/ DOC Ex. 632 DVL-S-4, page 1, Col (f).
8/ DOC Ex. 632 DVL-S-4, columns c and d.
9/ ALJ Prepaid Pension Asset of \$59,707,154 is from SJS Direct Schedule C-1, page 13, line 22, column (3). Should be \$60,041,948 from MP Exhibit ___SJS Supplemental Direct Schedule C-1, page 13, line 22, column 3 as result of updated Supplemental Direct jurisdictional allocator. ADIT: MP Exhibit ___MAP Supplemental Direct A-5, page 2, column 8. Total company 36,855,480 x 85.434% Supplemental Direct jurisdictional ADIT split (786,168,208 / 920,203,010) from MP Exhibit SJS Supplemental Direct Schedule C-1, page 15, line 15, columns (3)/(1)
10/ Attachment 2, Modified Commission Decision Schedule 2, page 3, line 42.
11/ Sum of Columns (f) through (j).

Minnesota Power
Cash Working Capital Adjustment
Test Year Ending December 31, 2017

Docket No. E, G-999/CI-17-895
Attachment 2
Modified Commission Decision Schedule 2
Page 3 of 4

Line No.	Description	MP Surrebuttal & MPUC Adjustments	Expense per Day at 365 Days/Year 5/	Revenue Lead Days 1/	Expense Lag Days 1/	Net Revenue Lag Days 6/	MP and MPUC Test Year with new tax rate Adj. 7/
		(a)	(b)	(c)	(d)	(e)	(f)
Cash Working Capital							
9	Fuel	\$0 2/	\$0	26.47	16.75	9.72	\$0
10	Purchased Power:						
11	Square Butte	\$0 2/	\$0	26.47	23.08	3.39	\$0
12	MISO	\$0 2/	\$0	26.47	31.82	(5.35)	\$0
13	Other Suppliers	\$0 2/	\$0	26.47	31.82	(5.35)	\$0
14	Total Purchased Power	\$0					\$0
Payroll:							
15	Payroll	(\$3,570,279) 2/	(\$9,782)	26.47	14.00	12.47	(\$121,976)
16	Payroll Results Sharing	\$0 2/	\$0	26.47	0.00	26.47	\$0
17	Total Payroll	(\$3,570,279)					(\$121,976) 8/
18	Other O&M	(\$8,862,976) 2/	(\$24,282)	26.47	20.38	6.09	(\$147,878)
19	Total O&M CWC	(\$12,433,255)					(\$269,855) 9/
Property Taxes:							
21	Property Taxes	\$0 2/	\$0	26.47	378.00	(351.53)	\$0
22	Personal Property Taxes	\$0 2/	\$0	26.47	316.50	(290.03)	\$0
23	Total Property taxes	\$0					\$0 10/
Payroll Taxes:							
24	Social Security	\$0	\$0	26.47	0.00	26.47	\$0
25	Federal Unemployment	\$0	\$0	26.47	76.50	(50.03)	\$0
26	State Unemployment	\$0	\$0	26.47	76.50	(50.03)	\$0
27	Total Payroll Taxes	\$0					\$0
Other Taxes:							
28	Wind Production Tax	\$0	\$0	26.47	333.50	(307.03)	\$0
29	Air Emission Environmental	\$0	\$0	26.47	333.50	(307.03)	\$0
30	Total Other Taxes	\$0					\$0
Income Taxes:							
31	State	(\$556,068) 3/	(\$1,523)	26.47	31.25	(4.78)	\$7,282
32	Federal	(\$1,257,954) 4/	(\$3,446)	26.47	39.25	(12.78)	\$44,046
33	Total Income Taxes	(\$1,814,023)					\$51,328 11/
34	Payroll Withholding	\$0	\$0	0.00	0.85	(0.85)	\$0
35	Sales Tax Collection	\$0	\$0	15.17	32.57	(17.40)	\$0
36	MPUC Cash Working Capital						(\$218,527) 12/
37	Rebuttal Cash Working Capital Adjustment						(\$112,050) 13/
38	MPUC Cash Working Capital Adjustment with new tax rate						(\$106,477) 14/

1/ MP Exhibit No. 19 (MAP), Supplemental Direct Schedule G-6, Page 1 of 7.
2/ Attachment 2, Modified Commission Decision Schedule 2, page 4.
3/ Attachment 2, Modified Commission Decision Schedule 3, page 1, line 33, columns (f)+(h).
4/ Attachment 2, Modified Commission Decision Schedule 3, page 1, line 34, columns (f)+(h).
5/ Column (a) / 365.
6/ Columns (c) - (d).
7/ Columns (b) x (e).
8/ Lines (15) + (16).
9/ Lines (17) + (18).
10/ Lines (21) + (22).
11/ Lines (34) + (35).
12/ Lines (19) + (23) + (36).
13/ MAP Rebuttal Schedule 3, page 3, line 40.
14/ Lines (40) - (41).

MINNESOTA POWER
Cash Working Capital Workpaper
Test Year Ending December 31, 2017

Line No.	Description	MP		
		Expenses (a)	% of Total (b)	
1	Payroll	82,621,827 1/	0.28716 2/	
2	Payroll Results Sharing	0 1/	0.00000 3/	
3	Other O&M	205,103,114 1/	0.71284 4/	
4	Total	287,724,941 5/	1.00000	
Purchased Power				
5	Square Butte	84,219,620 1/	0.34705 6/	
6	MISO	76,214,706 1/	0.31406 7/	
7	Other Suppliers	82,238,217 1/	0.33889 8/	
8	Total	242,672,543 9/	1.00000	
		MP Surrebuttal Adjustments	MPUC Expense Adjustments	Combined MP/MPUC
9	Steam Production	0 10/	(3,541,969) 20/	(3,541,969)
10	Hydro Production	0 10/	(1,103,443) 20/	(1,103,443)
11	Wind Production	0 10/	(2,328,246) 20/	(2,328,246)
11 a.	Distribution	0 10/	(2,254,456) 20/	(2,254,456)
12	Customer Accounting	0 10/	0 20/	0
13	Conservation Improvement Plan	0 10/	0 20/	0
14	A & G	0 10/	(3,205,141) 20/	(3,205,141)
15	Total	0 11/	(12,433,255) 11/	(12,433,255)
16	Payroll	0 12/	(3,570,279) 12/	(3,570,279)
17	Payroll Results Sharing	0 13/	0 13/	0
18	Other O&M	0 14/	(8,862,976) 14/	(8,862,976)
19	Total	0 15/	(12,433,255) 15/	(12,433,255)
20	Purchased Power	0 10/	0 20/	0
21	Square Butte	0 16/	0 16/	0
22	MISO	0 17/	0 17/	0
23	Other Suppliers	0 18/	0 18/	0
24	Total	0 19/	0 19/	0

1/ MP Exhibit 19 (MAP), Supplemental Direct Schedule G-6, Page 1 of 7.
2/ Lines (1)/(4).
3/ Lines (2)/(4).
4/ Lines (3)/(4).
5/ Sum of Lines (1:3).
6/ Lines (5)/(8).
7/ Lines (6)/(8).
8/ Lines (7)/(8).
9/ Sum of Lines (5:7).
10/ Attachment 2, Schedule 3, page 1, column (f).
11/ Sum of Lines (9:14).
12/ Line (15)* Line 1(b)
13/ Line (15)* Line 2(b)
14/ Line (15)* Line 3(b)
15/ Sum of Lines (16:18).
16/ Line (20)* Line 5(b)
17/ Line (20)* Line 6(b)
18/ Line (20)* Line 7(b)
19/ Sum of Lines (21:23).
20/ Attachment 2, Modified Commission Decision Schedule 3, page 1, column (h).

Minnesota Power
Operating Income Summary and Adjustments
Test Year Ending December 31, 2017
Minnesota Jurisdiction

Line No.	Description	MP	MP	MP	MP	MP	MP	MPUC	MPUC	
		Filing 1/	Supplemental Adjustments 2/	Supplemental Position 3/	Rebuttal Adjustments 4/	Rebuttal Position 5/	Surrebuttal Adjustment 6/	Surrebuttal Position 7/	Adjustment 8/	Decision with new tax rate 9/
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
UTILITY OPERATING REVENUES										
1	Residential	\$101,179,367	189,938	101,369,305	0	101,369,305	0	101,369,305	0	101,369,305
2	General Service	\$64,921,910	123,649	65,045,559	0	65,045,559	0	65,045,559	0	65,045,559
3	Large Light & Power	114,923,224	270,226	115,193,450	0	115,193,450	0	115,193,450	0	115,193,450
4	Large Power	310,260,128	28,728,576	338,988,704	0	338,988,704	(16,354,614)	322,634,090	2,600,000	325,234,090
5	Municipal Pumping	1,677,238	3,013	1,680,251	0	1,680,251	0	1,680,251	0	1,680,251
6	Lighting	3,542,012	2,994	3,545,006	0	3,545,006	0	3,545,006	0	3,545,006
7	Non-Jurisdictional	0	0	0	0	0	0	0	0	0
8	Total Sales by Rate Class	596,503,879	29,318,396	625,822,275	0	625,822,275	(16,354,614)	609,467,661	2,600,000	612,067,661
9a	Dual Fuel	10,328,389	24,838	10,353,227	0	10,353,227	0	10,353,227	0	10,353,227
9b	Other Operating Revenue	187,948,615	562,413	188,511,028	1,836,000	190,347,028	(5,153,000)	185,194,028	5,153,000	190,347,028
10	Total Operating Revenues	\$794,780,883	\$29,905,647	\$824,686,530	\$1,836,000	\$826,522,530	(21,507,614)	\$805,014,916	7,753,000	812,767,916
UTILITY OPERATING EXPENSES										
OPERATION AND MAINTENANCE EXPENSE										
11	Steam Production	\$44,200,594	348,204	\$44,548,798	\$0	44,548,798	0	44,548,798	(3,541,969)	41,006,829
12	Hydro Production	6,767,045	53,356	\$6,820,401	\$0	6,820,401	0	6,820,401	(1,103,443)	5,716,958
13	Wind Production	13,657,871	108,519	\$13,766,390	\$0	13,766,390	0	13,766,390	0	13,766,390
14	Other Power Supply	1,845,562	14,664	\$1,860,226	\$0	1,860,226	0	1,860,226	(2,328,246)	(468,020)
15	Purchased Power and Interchange P.	195,965,057	8,655,008	\$204,620,065	\$0	204,620,065	0	204,620,065	0	204,620,065
16	Fuel	115,370,710	1,533,603	\$116,904,313	\$0	116,904,313	0	116,904,313	0	116,904,313
17	Total Production	377,806,839	10,713,354	388,520,193	0	388,520,193	0	388,520,193	(6,973,658)	381,546,535
18	Transmission & Regional Mkt.	46,929,091	416,137	\$47,345,228	\$0	47,345,228	0	47,345,228	0	47,345,228
19	Distribution	24,337,411	936	\$24,338,347	\$1,613,728	25,952,075	0	25,952,075	(2,254,456)	23,697,619
20	Customer Accounting	6,712,302	0	\$6,712,302	\$0	6,712,302	0	6,712,302	0	6,712,302
21	Customer Service & Info.	2,746,697	0	\$2,746,697	\$0	2,746,697	0	2,746,697	0	2,746,697
22	Conservation Improvement Program	10,572,625	0	\$10,572,625	(\$125,000)	10,447,625	0	10,447,625	0	10,447,625
23	Sales	40,958	0	\$40,958	\$0	40,958	0	40,958	0	40,958
24	Administrative and General	54,810,364	320,270	\$55,130,634	(\$3,538,552)	51,592,082	0	51,592,082	(3,205,141)	48,386,941
25	Customer Deposits - Interest	1,071,000	0	\$1,071,000	\$0	1,071,000	0	1,071,000	0	1,071,000
26	Charitable Contributions	392,081	2,199	\$394,280	\$0	394,280	0	394,280	0	394,280
29	Total O&M Expense	525,419,368	11,452,896	536,872,264	(2,049,824)	534,822,440	0	534,822,440	(12,433,255)	522,389,185
30	Depreciation Expense	100,795,977	677,994	\$101,473,971	(1,700,811)	99,773,160	0	99,773,160	5,205,527	104,978,687
31	Amortization Expense	5,156,900	25,932	\$5,182,832	(\$964,890)	4,217,942	0	4,217,942	0	4,217,942
32	Taxes Other Than Income	42,028,866	259,927	\$42,288,793	(\$10,059)	42,278,734	0	42,278,734	0	42,278,734
33	State Income tax	(193,961)	371,031	\$177,070	613,617	790,687	(2,107,746)	(1,317,059)	1,551,677	234,618
34	Federal Income Tax	(651,420)	1,204,072	\$552,652	1,148,126	1,700,778	(4,073,972)	(2,373,195)	2,816,018	442,823
35	Provision for Deferred Income Tax	41,700,041	4,445,436	\$46,145,477	0	46,145,477	0	46,145,477	(13,648,807)	32,496,670
36	Provision for Deferred Income Tax -Cr	(42,411,833)	870,982	(\$41,540,851)	(1,462,487)	(43,003,338)	0	(43,003,338)	1,990,162	(41,013,176)
37	Less: Investment Tax Credit - Feedba	361,974	2,466	\$364,440	0	364,440	0	364,440	0	364,440
38	Less: AFUDC	2,351,382	16,509	\$2,367,891	0	2,367,891	0	2,367,891	0	2,367,891
39	Total Utility Operating Expense	669,130,582	19,289,295	688,419,877	(4,426,329)	683,993,548	(6,181,718)	677,811,830	(14,518,678)	663,293,152
40	TOTAL JURIS. OPERATING INCOME	125,650,301	10,616,352	136,266,653	6,262,329	142,528,982	(15,325,896)	127,203,086	22,271,678	149,474,764

1/ MP Exhibit No. 6 (MAP), Schedule A-6, page 1, column (6).
2/ Columns (c) - (a).
3/ MP Exhibit No. 19 (MAP), Supplemental Schedule A-6, page 1, column (6).
4/ MP Exhibit No. 86 (MAP), Rebuttal Schedule 6, page 1, column (e).
5/ Columns (c) + (d).
6/ MP Exhibit No. 87 (MAP), Surrebuttal Schedule 3, page 1, column (f).
7/ Columns (e) + (f).
8/ Attachment 2, Modified Commission Decision Schedule 3, page 5, column (aj).
9/ Columns (g) + (h).

**Minnesota Power
Operating Income Adjustments
Rebuttal, Surrebuttal and
MPUC Decision
Minnesota Jurisdiction**

Line No.	Description	(a) Straight River Cap. Proj. 1/ 115kV Trans	(b) Hibbard Depreciation Life 2/	(c) Reverse Cloquet Energy Center Amortization 3/	(d) Reverse Amortization of Deferred Storm Damages 4/	(e) Storm Response Expense 5/	(f) Transmission Revenues & Expense 6/	(g) CIS/CC&B Expense 7/	(h) Pension Expense 8/	(i) Lobbying/ Employee Expense 9/
UTILITY OPERATING REVENUES										
1	Residential									
2	General Service									
3	Large Light & Power									
	Large Power									
1	Municipal Pumping									
2	Lighting									
3	Non-Jurisdictional									
4	Total Sales by Rate Class	0	0	0	0	0	0	0	0	0
9a	Dual Fuel									
9b	Other Operating Revenue						1,836,000			
10	Total Operating Revenues	\$0	\$0	\$0	\$0	\$0	\$1,836,000	\$0	\$0	\$0
UTILITY OPERATING EXPENSES OPERATION AND MAINTENANCE EXPENSE										
11	Steam Production									
12	Hydro Production									
13	Wind Production									
14	Other Power Supply									
15	Purchased Power and Interchange P.									
16	Fuel									
17	Total Production	0	0	0	0	0	0	0	0	0
18	Transmission & Regional Mkt.									
19	Distribution					1,613,728				
20	Customer Accounting									
21	Customer Service & Info.									
22	Conservation Improvement Program									
23	Sales									
24	Administrative and General									
25	Customer Deposits - Interest									
26	Charitable Contributions									
29	Total O&M Expense	0	0	0	0	1,613,728	0	(21,584)	(519,375)	(13,592)
30	Depreciation Expense	(8,025)	(1,692,786)							
31	Amortization Expense			(232,618)	(732,272)					
32	Taxes Other Than Income									
33	State Income Tax	(10,059)	165,893	22,797	71,763	(158,145)	179,928	2,115	50,899	1,332
34	Federal Income Tax	1,772	320,648	44,063	138,707	(305,672)	347,775	4,088	98,380	2,575
35	Provision for Deferred Income Tax	3,425								
36	Provision for Deferred Income Tax -Cr									
37	Investment Tax Credit - Feedback									
38	AFUDC									
39	Total Utility Operating Expense	(12,886)	(1,206,245)	(165,759)	(521,802)	1,149,910	527,703	(15,380)	(370,096)	(9,685)
40	TOTAL JURIS. OPERATING INCOME	12,886	1,206,245	165,759	521,802	(1,149,910)	1,308,297	15,380	370,096	9,685

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Attachment 2
Modified Commission Decision Schedule 3
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**Minnesota Power
Operating Income Adjustments
Rebuttal, Surrebuttal and
MPUC Decision
Minnesota Jurisdiction**

Line No.	Description	Unfiled Positions /10 (j)	Interest on Benefits & Other Awards /11 (k)	Production Tax Credits 12/ (l)	Conservation Improvement Plan 13/ (m)	Interest 14/ Synchronization Adjustments 15/ (n)	MP Rebuttal Adjustments 16/ (o)	EITE Adjustments 16/ (p)	Third Party Transmission Revenues & Expense 17/ (q)	MP Surrebuttal Adjustments 18/ (r)
UTILITY OPERATING REVENUES										
1	Residential						\$0			0
2	General Service						\$0			0
3	Large Light & Power						\$0			0
	Large Power						\$0	(16,354,614)		(16,354,614)
1	Municipal Pumping						\$0			0
2	Lighting						\$0			0
3	Non-Jurisdictional						\$0			0
4	Total Sales by Rate Class	0	0	0	0	0	\$0	(16,354,614)	0	(16,354,614)
9a	Dual Fuel						\$0			0
9b	Other Operating Revenue						\$1,836,000		(5,153,000)	(5,153,000)
10	Total Operating Revenues	\$0	\$0	\$0	\$0	\$0	\$1,836,000	(\$16,354,614)	(\$5,153,000)	(\$21,507,614)
UTILITY OPERATING EXPENSES OPERATION AND MAINTENANCE EXPE										
11	Steam Production						\$0			0
12	Hydro Production						\$0			0
13	Wind Production						\$0			0
14	Other Power Supply						\$0			0
15	Purchased Power and Interchange P.						\$0			0
16	Fuel						\$0			0
17	Total Production	0	0	0	0	0	\$0	0	0	0
18	Transmission & Regional Mkt.						\$0			0
19	Distribution						\$1,613,728			0
20	Customer Accounting						\$0			0
21	Customer Service & Info.						\$0			0
22	Conservation Improvement Program				(125,000)		(125,000)			0
23	Sales	(2,969,621)	(14,380)				\$0			0
24	Administrative and General						(3,538,552)			0
25	Customer Deposits - Interest						\$0			0
26	Charitable Contributions						\$0			0
29	Total O&M Expense	(2,969,621)	(14,380)	0	(125,000)	0	(2,049,824)	0	0	0
30	Depreciation Expense						(1,700,811)			0
31	Amortization Expense						(964,890)			0
32	Taxes Other Than Income						(10,059)			0
33	State Income Tax	291,023	1,409	0	12,250	(29,419)	\$613,617	(1,602,752)	(504,994)	(2,107,746)
34	Federal Income Tax	562,506	2,724	0	23,678	(94,770)	\$1,148,126	(3,097,891)	(976,081)	(4,073,972)
35	Provision for Deferred Income Tax						\$0			0
36	Provision for Deferred Income Tax -Cr						(1,462,487)			0
37	Investment Tax Credit - Feedback						\$0			0
38	AFUDC						\$0			0
39	Total Utility Operating Expense	(2,116,093)	(10,247)	(1,462,487)	(89,073)	(124,188)	(4,426,329)	(4,700,643)	(1,481,075)	(6,181,718)
40	TOTAL JURIS. OPERATING INCOME	2,116,093	10,247	1,462,487	89,073	124,188	6,262,329	(11,653,971)	(3,671,925)	(15,325,886)

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Modified Commission Decision Schedule 3
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Minnesota Power Operating Income Adjustments Rebuttal, Surrebuttal and MPUC Decision		MPUC Adjustments										
Minnesota Jurisdiction		(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)	(aa)	(ab)	(ac)
Line No.	Description	Boswell 1 & 2 Depreciation Life 19/	Employee Expense 20/	Storm Response Expense 21/	Charitable Contrib. Admin Cost 22/	EITE Adjustments 23/	Third Party Transmission Revenues & Expense 24/	Mud Lake & Hoyt Lakes Capital Projects 25/	Steam O&M Supervision 26/	Hydro O&M Supervision 27/	Other Power O&M Supervision 28/	Meter Reading 29/
UTILITY OPERATING REVENUES												
1	Residential											
2	General Service											
3	Large Light & Power											
	Large Power					2,600,000						
1	Municipal Pumping											
2	Lighting											
3	Non-Jurisdictional											
4	Total Sales by Rate Class	0	0	0	0	2,600,000	0	0	0	0	0	0
9a	Dual Fuel											
9b	Other Operating Revenue											
10	Total Operating Revenues	\$0	\$0	\$0	\$0	\$2,600,000	\$5,153,000	\$0	\$0	\$0	\$0	\$0
UTILITY OPERATING EXPENSES OPERATION AND MAINTENANCE EXPE												
11	Steam Production							(2,708,635)		(1,103,443)		
12	Hydro Production											
13	Wind Production											
14	Other Power Supply											
15	Purchased Power and Interchange P.											
16	Fuel											
17	Total Production	0	0	0	0	0	0	(2,708,635)	(1,103,443)	(2,328,246)	0	
18	Transmission & Regional Mkt.											
19	Distribution											
20	Customer Accounting											
21	Customer Service & Info.											
22	Conservation Improvement Program											
23	Sales											
24	Administrative and General											
25	Customer Deposits - Interest											
26	Charitable Contributions											
29	Total O&M Expense	0	(454,203)	(1,613,728)	(149,626)	0	0	(2,708,635)	(1,103,443)	(2,328,246)	(640,728)	
30	Depreciation Expense	5,229,334										
31	Amortization Expense											
32	Taxes Other Than Income											
33	Slate Income tax	(512,475)	44,512	158,145	14,663	254,800	504,994	265,446	108,137	228,168	62,791	
34	Federal Income Tax	(990,540)	86,035	305,672	28,342	492,492	976,081	513,070	209,014	441,016	121,367	
35	Provision for Deferred Income Tax											
36	Provision for Deferred Income Tax -Cr											
37	Investment Tax Credit - Feedback											
38	AFUDC											
39	Total Utility Operating Expense	3,726,319	(323,656)	(1,149,910)	(106,620)	747,292	1,481,075	(1,930,119)	(786,291)	(1,659,062)	(456,570)	
40	TOTAL JURIS. OPERATING INCOME	(3,726,319)	323,656	1,149,910	106,620	1,852,708	3,671,925	1,930,119	786,291	1,659,062	456,570	

Minnesota Power
Operating Income Adjustments
Rebuttal, Surrebuttal and
MPUC Decision
Minnesota Jurisdiction

Line No.	Description	MPUC Adjustments					Total MPUC Adjustments 36 (aj)
		EDA & EIP (DOC) 30/ (ad)	Taconite Harbor Re-start Re-Idling 31/ (ae)	Retirement Savings & Stock Plan 32/ (af)	Other Benefits 33/ (ag)	Interest 34/ Synchronization Position 35/ (ah)	
UTILITY OPERATING REVENUES							
1	Residential						0
2	General Service						0
3	Large Light & Power						0
	Large Power						2,600,000
1	Municipal Pumping						0
2	Lighting						0
3	Non-Jurisdictional						0
4	Total Sales by Rate Class	0	0	0	0	0	2,600,000
9a	Dual Fuel						0
9b	Other Operating Revenue						5,153,000
10	Total Operating Revenues	\$0	\$0	\$0	\$0	\$0	\$7,753,000

**UTILITY OPERATING EXPENSES
OPERATION AND MAINTENANCE EXPE**

11	Steam Production		(\$833,334)					(3,541,969)
12	Hydro Production							(1,103,443)
13	Wind Production							0
14	Other Power Supply							(2,328,246)
15	Purchased Power and Interchange P.							0
16	Fuel							0
17	Total Production	0	(833,334)	0	0	0	0	(6,973,658)
18	Transmission & Regional Mkt.							0
19	Distribution							(2,254,456)
20	Customer Accounting							0
21	Customer Service & Info.							0
22	Conservation Improvement Program							0
23	Sales							0
24	Administrative and General	(1,380,313)			(717,999)			(3,205,141)
25	Customer Deposits - Interest							0
26	Charitable Contributions							0
29	Total O&M Expense	(1,380,313)	(833,334)	(717,999)	(503,000)	0	0	(12,433,255)
30	Depreciation Expense							5,205,527
31	Amortization Expense							0
32	Taxes Other Than Income							0
33	State Income Tax	135,271	81,667	70,364	49,294	83,566		1,551,677
34	Federal Income Tax	261,459	157,850	136,003	95,278	199,429	(221,061)	2,816,018
35	Provision for Deferred Income Tax						(13,648,807)	(13,648,807)
36	Provision for Deferred Income Tax -Cr						1,990,162	1,990,162
37	Investment Tax Credit - Feedback							0
38	AFUDC							0
39	Total Utility Operating Expense	(983,583)	(593,817)	(511,632)	(358,428)	282,995	(11,879,706)	(14,518,678)
40	TOTAL JURIS. OPERATING INCOME	983,583	593,817	511,632	358,428	(282,995)	11,879,706	22,271,678

Minnesota Power
MP Operating Income Adjustment Footnotes

- 1/ MAP Rebuttal Schedule 1.
- 2/ DOC Ex. 629 at Section VII (Campbell Direct).
- 3/ DOC Ex. 629 at Section III (Campbell Direct).
- 4/ DOC Ex. 629 at Section III (Campbell Direct).
- 5/ Fleege Rebuttal Testimony, \$1,680,267 x MN Juris Total Distribution O&M allocator 96.04%. See also footnote 21/.
- 6/ Fleege Rebuttal Testimony, \$2.22 million Total Company, \$1.836 million MN Jurisdiction.
- 7/ Podratz Rebuttal Schedule 5, \$24,805 x 87.0129% .
- 8/ Cutshall Rebuttal Testimony.
- 9/ Morris Rebuttal Testimony.
- 10/ Johnson Rebuttal Testimony, Table 1.
- 11/ Johnson Rebuttal Testimony.
- 12/ Jago Rebuttal Testimony.
- 13/ DOC Ex. 621 (Davis Direct) at page 12.
- 14/ Podratz Rebuttal Schedule 6, page 5.
- 15/ Sum of Columns (a) through (n).
- 16/ DOC Reply Comments 7/12/2017, Section IV, Docket No. E015/M-16-564. Also see MAP Surrebuttal Schedule 2, page 1, column (b), line 8; and MP's 2/28/2017 Supplemental Direct Filing, Supplemental Direct Schedule A-6, page 6, column 37 through page 7, column 48.
- 17/ Fleege Surrebuttal Testimony, $-\$2.85 \text{ million} + -\$3.38 \text{ million} = -\$6.23 \text{ million Total Company} \times 82.713\% = -\$5.153 \text{ million MN Jurisdiction}$. Note that this is in addition to the adjustment to MP's initial filing shown on MAP Surrebuttal Schedule 3, page 2, column (f), line 9b. This was not discussed by the ALJ. See also footnote 24/.
- 18/ Sum of Columns (p):(q).
- 19/ DOC Ex. 632 DVL-S-7, page 3, Column (u).
- 20/ MPUC Decision Option 1088.
- 21/ MPUC Decision Option 1051. Column (e) x -1 (reversing MP's Rebuttal adjustment in column (e); footnote 5/).
- 22/ MPUC Decision Option 1040.
- 23/ MPUC KEETAC Revenue Motion Handout.
- 24/ Column (q) x -1 (reversing MP's Surebuttal adjustment in column (q); footnote 17/).
- 25/ MPUC Decision Option 1018
- 26/ MPUC Decision Option 1049
- 27/ MPUC Decision Option 1049
- 28/ MPUC Decision Option 1049
- 29/ MPUC Decision Option 1049
- 30/ MPUC Decision Option 1025
- 31/ MPUC Decision Option 1059
- 32/ MPUC Decision Option 1058
- 33/ MPUC Decision Option 1029
- 34/ Attachment 2, Modified Commission Decision Schedule 3, page 7, column (c).
- 35/ Attachment 2, Modified Commission Decision Schedule 3, page 8, column (3), line 13, minus page 9, column (3), line 13 for Current Tax portion. Refer to Attachment 3 for Deferred Tax portion.
- 36/ Sum Columns (s):(ai)

Minnesota Power
Interest Synchronization Adjustment
Test Year Ending December 31, 2017

Line No.		MP Rebuttal & Surrebuttal (a)	MPUC Decision with new tax rate (b)	MPUC Adjustment with new tax rate (c)
1	MP Rate Base	\$2,092,387,441 1/	\$2,051,509,416 10/	
2	Weighted Cost of Debt 0.02086	0.02086 2/	0.02086 2/	
3	MP Interest	\$43,647,202 3/	\$42,794,486 3/	
4	MP Interest in Original Filing	\$43,347,013 4/	\$43,347,013 4/	
5	MP Interest Deduction Adj.	\$300,189 5/	(\$552,527) 5/	
6	MP Taxable Income Adj.	(\$300,189) 6/	\$552,527 6/	
7	State Tax Rate	0.0980 9/	0.0980 9/	
8	MP State Tax Interest Adjustment	(\$29,419) 7/	\$54,148 7/	\$83,566 11/
9	Federal Tax Rate	0.3157 9/	0.1894 12/	
10	MP Federal Tax Interest Adjustment	(\$94,770) 8/	\$104,660 8/	\$199,429 11/

1/ MP Exhibit No. 86 (MAP), Rebuttal Schedule 3, page 1, column (c).
2/ MP Exhibit No. 38 (PLC), Rebuttal Testimony, Schedule 1
3/ Lines (1) x (2).
4/ MP Exhibit No. 6 (MAP), Schedule H-2, Page 7 of 8.
5/ Lines (3) - (4).
6/ 0 - Line (5).
7/ Lines (6) x (7).
8/ Lines (6) x (9).
9/ MP Exhibit No. 6 (MAP), Schedule H-2, Page 8 of 8.
10/ Attachment 2, Modified Commission Decision Schedule 2, page 1, column (g).
11/ Column (b) - (a)
12/ Refer to Attachment 5.

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Attachment 2
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MINNESOTA POWER
ELECTRIC COST OF SERVICE STUDY
CALENDAR 2017 GENERAL

MP Exhibit (SJS) Supplemental Direct Schedule C-1
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2/9/2017 10:52 AM

SUMMARY

TOTAL COMPANY (1) FERC JURISDICTION (2) MINNESOTA JURISDICTION (3)

OPERATING EXPENSES CONT

INCOME TAXES

ALOC	TOTAL COMPANY (1)	FERC JURISDICTION (2)	MINNESOTA JURISDICTION (3)
STATE INCOME TAX			
1 ADJ NET INCOME	86,278,443	22,846,213	63,432,230
2 NOL RECLASS TO DEF TAX BENEFIT	15,440,351	2,198,246	13,242,105
3 STATE DEPREC MODIFICATION	(87,394,701)	(12,442,401)	(74,952,300)
4 STATE NET TAX INC	14,324,093	12,602,058	1,722,035
5 STATE TAX AT 9.8 PERCENT	1,403,761	1,235,002	168,759
6 CORRECTION TO PRIOR YEARS	0	0	0
7 STATE MINIMUM TAX	9,690	1,380	8,310
8 TOTAL STATE INCOME TAX	1,413,451	1,236,381	177,070
FEDERAL INCOME TAX			
9 ADJ NET INCOME	86,278,443	22,846,213	63,432,230
10 STATE TAX DEDUCTION	1,413,451	1,236,381	177,070
11 NOL CARRYFORWARD UTILIZED	(71,914,660)	(10,238,504)	(61,676,156)
12 FED NET TAX INC	12,950,332	11,371,328	1,579,004
13 FED TAX AT 35 PERCENT	4,532,616	3,979,965	552,652
14 PRODUCTION TAX CREDIT	0	0	0
15 CORRECTION TO PRIOR YEARS	0	0	0
16 TOTAL FEDERAL INCOME TAX	4,532,616	3,979,965	552,652
17 TOTAL INCOME TAXES	5,946,067	5,216,346	729,721

OTHER OPERATING EXPENSES

DEFERRED INCOME TAX

PROVISION FOR DEFERRED INCOME TAX

ACCOUNT 410.1	TOTAL COMPANY (1)	FERC JURISDICTION (2)	MINNESOTA JURISDICTION (3)
ACCOUNT 410.1			
18 STEAM	22,055,639	3,453,009	18,602,630
19 HYDRO	2,480,464	388,955	2,091,509
20 WIND	8,582,846	1,380,888	7,201,958
21 TRANSMISSION	8,769,825	1,499,779	7,270,046
22 DISTRIBUTION	7,625,304	314,319	7,310,985
23 GENERAL	4,215,868	547,517	3,668,351
24 TOTAL ACCOUNT 410.1	53,729,946	7,584,469	46,145,477
PROVISION FOR DEFERRED INCOME TAX - CREDIT			
ACCOUNT 411.1			
25 STEAM	19,296,704	3,021,073	16,275,631
26 HYDRO	2,382,549	357,921	1,924,628
27 WIND	8,838,770	1,422,063	7,416,707
28 TRANSMISSION	8,178,369	1,398,631	6,779,738
29 DISTRIBUTION	7,202,663	296,898	6,905,765
30 GENERAL	2,572,470	334,088	2,238,382
31 TOTAL ACCOUNT 411.1	48,371,525	6,830,674	41,540,851
32 TOTAL DEFERRED TAX - NET	5,358,421	753,794	4,604,627

OPERATING EXPENSES CONT

MP Exhibit (SUS) Direct Supplemental Schedule C-1
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SUMMARY

ALLOC	TOTAL COMPANY (1)	FERC JURISDICTION (2)	MINNESOTA JURISDICTION (3)
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INCOME TAXES	ALLOC	TOTAL COMPANY (1)	FERC JURISDICTION (2)	MINNESOTA JURISDICTION (3)
1 STATE INCOME TAX				
2 ADJ NET INCOME		86,278,443	22,846,213	63,432,230
3 NOL RECLASS TO DEF TAX BENFIT	PLANT	15,440,351	2,196,246	13,242,105
4 STATE DEPREC MODIFICATION	PLANT	(87,394,701)	(12,442,401)	(74,952,300)
5 STATE NET TAX INC		14,324,093	12,602,058	1,722,035
6 STATE TAX AT 9.8 PERCENT		1,403,761	1,235,002	168,759
7 CORRECTION TO PRIOR YEARS	PLANT	0	0	0
8 STATE MINIMUM TAX	PLANT	9,690	1,380	8,310
9 TOTAL STATE INCOME TAX		1,413,451	1,236,381	177,070
FEDERAL INCOME TAX				
9 ADJ NET INCOME		86,278,443	22,846,213	63,432,230
10 STATE TAX DEDUCTION		1,413,451	1,236,381	177,070
11 NOL CARRYFORWARD UTILIZED	PLANT	(71,914,660)	(10,238,504)	(61,676,156)
12 FED NET TAX INC		12,950,332	11,371,328	1,579,004
13 FED TAX AT 21 PERCENT		2,719,570	2,387,979	331,591
14 PRODUCTION TAX CREDIT	DPROD	0	0	0
15 CORRECTION TO PRIOR YEARS	PLANT	0	0	0
16 TOTAL FEDERAL INCOME TAX		2,719,570	2,387,979	331,591
17 TOTAL INCOME TAXES		4,133,021	3,624,360	508,661

OTHER OPERATING EXPENSES

DEFERRED INCOME TAX

PROVISION FOR DEFERRED INCOME TAX

ACCOUNT 410.1	ALLOC	TOTAL COMPANY (1)	FERC JURISDICTION (2)	MINNESOTA JURISDICTION (3)
18 STEAM		22,055,639	3,453,009	18,602,630
19 HYDRO	DSTMPLT	2,480,464	388,955	2,091,509
20 WIND	DHYDPLT	8,582,846	1,380,888	7,201,958
21 TRANSMISSION	DTRANPLT	8,769,825	1,499,779	7,270,046
22 DISTRIBUTION	DDISTPLT	7,625,304	314,319	7,310,985
23 GENERAL	DGENPLT	4,215,868	547,517	3,668,351
24 TOTAL ACCOUNT 410.1		53,729,946	7,584,469	46,145,477

PROVISION FOR DEFERRED INCOME TAX - CREDIT

ACCOUNT 411.1	ALLOC	TOTAL COMPANY (1)	FERC JURISDICTION (2)	MINNESOTA JURISDICTION (3)
25 STEAM		19,296,704	3,021,073	16,275,631
26 HYDRO	DHYDPLT	2,282,549	357,921	1,924,628
27 WIND	DWINDPLT	8,838,770	1,422,063	7,416,707
28 TRANSMISSION	DTRANPLT	8,178,369	1,398,631	6,779,738
29 DISTRIBUTION	DDISTPLT	7,202,663	296,888	6,905,765
30 GENERAL	DGENPLT	2,572,470	334,088	2,238,382
31 TOTAL ACCOUNT 411.1		48,371,525	6,830,674	41,540,851
32 TOTAL DEFERRED TAX - NET		5,358,421	753,794	4,604,627

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Attachment 3
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Minnesota Power
2017 Test Year Deferred Tax Expense
WITH TAX REFORM

	Restated Deferred tax expense @ 21%	Jurisdictional %	Jurisdictional Amount
410.1			
STEAM	15,527,480	84.34%	13,096,513
HYDRO	1,747,317	84.32%	1,473,325
WIND	6,058,191	83.91%	5,083,493
TRANSMISSION	6,179,517	82.90%	5,122,722
DISTRIBUTION	5,372,701	95.88%	5,151,235
GENERAL	2,952,873	87.01%	2,569,382
Total 410.1 tax at 21%	37,838,079		32,496,670
Total 410.1 tax at 35%	53,729,946		46,145,477 ^{1/}
Change to 410.1			(13,648,807) ^a
411.1			
STEAM	(18,403,553)	84.34%	(15,522,311)
HYDRO	(2,173,076)	84.32%	(1,832,321)
WIND	(8,470,676)	83.91%	(7,107,835)
TRANSMISSION	(7,801,962)	82.90%	(6,467,703)
DISTRIBUTION	(6,838,878)	95.88%	(6,556,975)
GENERAL	(2,371,537)	87.01%	(2,063,545)
Total 411.1 tax at 21%	(46,059,682)		(39,550,689)
Total 411.1 tax at 35%	(48,371,525)		(41,540,851) ^{1/}
Change to 411.1			1,990,162 ^b
Total Change to Deferred Tax Expense			(11,658,645) ^{a + b}

^{1/} Refer to Attachment 2, Schedule 3, page 8 of 9, lines 24 and 32, column (3).

Minnesota Power
Amortization of Excess Deferred Taxes
Test Year 2017
December 31, 2017

Excess deferred taxes related to plant items	1/		\$ (7,216,299)
Excess deferred tax amortization for NOL DTAs			
Total excess DTA to amortize	2/	\$ 36,498,107	
Estimated remaining life of plant		<u>24</u>	1,520,754
Excess deferred taxes for non-plant items			
Total	3/	(6,499,648)	
Amortization period		<u>10</u>	<u>(649,965)</u>
Total excess deferred tax benefit - Total Company			(6,345,510)
Jurisdictional Percentage			<u>85.80%</u>
Total excess deferred tax benefit - Jurisdictional			<u><u>(5,444,448)</u></u>
Change in average rate base due to removal of excess deferred taxes	4/		<u><u>2,722,224</u></u>

- 1/ Plant-related excess deferreds are returned over remaining book life as calculated using Average Rate Assumption method (ARAM) in tax software
- 2/ Excess deferred tax DTA for NOLs exists due to accelerated tax depreciation, therefore under IRS normalization rules must also be amortized over remaining book life of assets
- 3/ Excess deferred taxes for non-plant items consists of many smaller items
- 4/ The change in average rate base is equal to total excess deferred tax benefit, divided by 2.

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Minnesota Power
Effective Taxes Rates

	Prior To 2018	Starting 2018	
State Tax Rate Minnesota	9.80%	9.80%	
Federal Tax Rate - Current	35.00%	21.00%	
Composite Effective Tax Rate	0.41370	0.28742	1/
1 - Effective Tax Rate	0.58630	0.71258	
Factor for Taxable Basis (Gross Revenue Conversion Factor)	1.70561	1.40335	2/

1/ (State Rate + Federal Rate) - (State Rate x Federal Rate)

2/ 1+ ((Effective Tax Rate)/(1-Effective Tax Rate))

Blended

State Tax Rate Minnesota	9.8000%	9.8000%	
Federal Tax Rate	31.5700%	18.9420%	3/
Composite Effective Tax Rate	41.3700%	28.7420%	

3/ Federal Rate - (State Rate x Federal Rate)

Minnesota Power
Project Revenue Requirements

Generic Transmission Project
In Service 10/31/2017

Section	Line	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	
A Book Basis of Property	0 CWIP	1,410,083	1,586,185	-	-	-	-	-	-	-	-	-	
	1 Plant in Service	-	-	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	
	2 Total Accumulated Depreciation	-	-	1,961	5,882	9,804	13,725	17,647	21,568	25,489	29,411	33,332	
	3 Net Plant	-	-	1,880,335	1,876,414	1,872,492	1,868,571	1,864,649	1,860,728	1,856,807	1,852,885	1,848,964	1,845,043
	4 Total Depreciation	-	-	1,961	3,921	5,882	9,804	13,725	17,647	21,568	25,489	29,411	33,332
B Tax Basis of Property	1 Plant in Service	-	-	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	
	2 Accumulated Depreciation	-	-	945,069	948,991	952,912	956,833	960,754	964,675	968,596	972,517	976,438	
	3 Net Plant	-	-	937,227	933,305	929,384	925,463	921,542	917,621	913,700	909,779	905,858	
	4 Bonus Depreciation (50%)	-	-	941,148	941,148	941,148	941,148	941,148	941,148	941,148	941,148	941,148	
	5 Total Tax Depreciation (including bonus)	-	-	3,921	3,921	3,921	3,921	3,921	3,921	3,921	3,921	3,921	
C Revenue Requirements	1 Net Plant	-	-	1,880,335	1,876,414	1,872,492	1,868,571	1,864,649	1,860,728	1,856,807	1,852,885	1,848,964	
	2 Less: ADITL - Def Taxes	-	-	(390,164)	(390,164)	(390,164)	(391,264)	(392,364)	(393,464)	(394,564)	(395,664)	(396,764)	
	3 Rate Base	-	-	1,490,171	1,486,250	1,482,328	1,478,307	1,474,285	1,470,264	1,466,242	1,462,221	1,458,200	
	4 Average Rate Base	-	-	745,086	743,125	741,164	739,203	737,242	735,281	733,320	731,359	729,398	
	5 Current Return on CWIP	12,300	14,235	7,536	-	-	-	-	-	-	-	-	
	6 Return on Average Rate Base	-	-	3,091	6,174	6,157	6,139	6,118	6,097	6,076	6,055	6,035	
	7 After Tax Return on Equity	-	-	2,181	4,358	4,345	4,276	4,258	4,240	4,221	4,202	4,184	
	8 Income Tax Component	-	-	1,295	2,587	2,580	2,572	2,564	2,556	2,548	2,540	2,532	
	9 Interest Expense Component	-	-	6,567	13,117	13,082	13,117	13,149	13,181	13,213	13,245	13,277	
	10 Total Return on Average Rate Base	-	-	-	-	-	-	-	-	-	-	-	
	11 Operation & Maintenance Expense	-	-	1,961	3,921	3,921	3,921	3,921	3,921	3,921	3,921	3,921	
	12 Depreciation Expense	1,381	1,381	1,381	1,381	1,381	1,381	1,381	1,381	1,381	1,381	1,381	
	13 Property Tax	-	-	-	-	-	-	-	-	-	-	-	
14 Monthly Revenue Requirements	13,681	15,616	17,445	18,419	18,385	18,315	18,277	18,239	18,202	18,164	18,126		

Minnesota Power
Project Revenue Requirements

Generic Transmission Project
In Service 10/31/2017

Section	Line	Jul-32	Aug-32	Sep-32	Oct-32	Nov-32	Dec-32	Jan-33	Feb-33	Mar-33	Apr-33	May-33	Jun-33
A Book Basis of Property													
0 CWIP													
1 Plant in Service													
2	Total Accumulated Depreciation	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296
3	Net Plant	696,057	699,979	703,900	707,822	711,743	715,665	719,586	723,508	727,429	731,350	735,272	739,193
4	Total Depreciation	1,186,239	1,182,317	1,178,396	1,174,474	1,170,553	1,166,631	1,162,710	1,158,788	1,154,867	1,150,946	1,147,024	1,143,103
5	Book Depreciation Rate (40 year book life)	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%
B Tax Basis of Property													
1 Plant in Service													
2	Accumulated Depreciation	1,862,022	1,866,077	1,870,132	1,874,186	1,878,241	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296
3	Net Plant	20,274	16,219	12,164	8,110	4,055	(0)	(0)	(0)	(0)	(0)	(0)	(0)
4 Bonus Depreciation (50%)													
Net Depreciable 10/2017 Plant													
	Tax Depreciation Rate 10/2017 Plant (15 yr, mtd-r)	941,148	941,148	941,148	941,148	941,148	941,148	941,148	941,148	941,148	941,148	941,148	941,148
	Tax Depreciation 10/2017 Plant	0.431%	0.431%	0.431%	0.431%	0.431%	0.431%	0.431%	0.431%	0.431%	0.431%	0.431%	0.431%
	Tax Depreciation (including bonus)	4,055	4,055	4,055	4,055	4,055	4,055	4,055	4,055	4,055	4,055	4,055	4,055
5	Total Tax Depreciation	1,862,022	1,866,077	1,870,132	1,874,186	1,878,241	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296	1,882,296
7 Accumulated Tax Book Difference													
8	Composite Income Tax Rate	1,165,965	1,166,098	1,166,231	1,166,365	1,166,498	1,166,631	1,162,710	1,158,788	1,154,867	1,150,946	1,147,024	1,143,103
9	Accumulated Deferred Income Tax Liability	28,742%	28,742%	28,742%	28,742%	28,742%	28,742%	28,742%	28,742%	28,742%	28,742%	28,742%	28,742%
10	Excess Deferred Income Tax Liability	335,122	335,160	335,198	335,237	335,275	335,313	334,186	333,059	331,932	330,805	329,678	328,551
11	Excess Deferred Income Tax Liability Amort	119,096	119,096	119,096	119,096	119,096	119,096	119,096	118,696	118,296	117,897	117,497	117,098
12	Adjusted Accum Deferred Income Tax Liability	454,217	454,256	454,294	454,332	454,371	454,409	452,882	451,355	449,829	448,302	446,775	445,248
13	Deferred Tax Expense debit / (Credit)	38	38	38	38	38	38	(1,527)	(1,527)	(1,527)	(1,527)	(1,527)	(1,527)
C Revenue Requirements													
1 Net Plant													
2	Less: ADITL - Def Taxes	1,186,239	1,182,317	1,178,396	1,174,474	1,170,553	1,166,631	1,162,710	1,158,788	1,154,867	1,150,946	1,147,024	1,143,103
3	Rate Base	732,021	728,061	724,102	720,142	716,182	712,222	708,262	704,302	700,342	696,382	692,422	688,462
4	Average Rate Base	734,001	730,041	726,082	722,122	718,162	714,202	710,242	706,282	702,322	698,362	694,402	690,442
5 Current Return on CWIP													
Return on Average Rate Base													
7	After Tax Return on Equity	3,045	3,028	3,012	2,996	2,979	2,963	2,950	2,940	2,930	2,920	2,910	2,900
8	Income Tax Component	1,228	1,222	1,215	1,208	1,202	1,195	1,190	1,186	1,182	1,178	1,174	1,170
9	Interest Expense Component	1,276	1,269	1,262	1,255	1,248	1,242	1,236	1,232	1,228	1,224	1,219	1,215
10	Total Return on Average Rate Base	5,549	5,519	5,489	5,459	5,429	5,399	5,375	5,357	5,339	5,321	5,303	5,285
11 Operation & Maintenance Expense													
12	Depreciation Expense	3,921	3,921	3,921	3,921	3,921	3,921	3,921	3,921	3,921	3,921	3,921	3,921
13	Property Tax	3,207	3,207	3,207	3,207	3,207	3,207	3,207	3,207	3,207	3,207	3,207	3,207
14	Monthly Revenue Requirements	12,677	12,647	12,617	12,587	12,557	12,527	12,503	12,485	12,467	12,449	12,431	12,413

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Attachment 7
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MPUC Docket E015/GR-16-664
2017 Test Year Rate of Return / Cost of Capital Summary
(thousands of dollars)
Commission Decision (1/18/2018)
Used Starting 1/1/2017

Average for 13 months Ended 12/31/17						
	Amount	% of Total	Component Cost	Weighted Cost	Pre-tax Rate	After-Tax Rate
Long Term Debt	\$ 1,229	46.189%	4.5170%	2.0860%	2.0860%	1.220%
Common Equity	\$ 1,431	53.811%	9.2500%	4.9780%	8.4905%	4.978%
	\$ 2,660	100.00%		7.0640%	10.5765%	6.198%
					Federal & State Income Tax Rate	41.37%
					Pretax "Gross-up" Factor	1.70560
					After Tax Return on Equity	4.9780% 1/
					Income Tax Component	3.5125% 2/
					Interest Expense Component	2.0860%
					Pre-tax Return	10.5765%

1/ Rounding forced to equity.

2/ Shown here as a component of the pretax rate of return. Can also be computed as 70.56% gross up on After Tax Return on Equity.

MPUC Docket E015/GR-16-664
2017 Test Year Rate of Return / Cost of Capital Summary
(thousands of dollars)
Commission Decision (1/18/2018)
Used Starting 1/1/2018 To Reflect New Corporate Tax Rate of 21%

Average for 13 months Ended 12/31/17						
	Amount	% of Total	Component Cost	Weighted Cost	Pre-tax Rate	After-Tax Rate
Long Term Debt	\$ 1,229	46.189%	4.52%	2.0860%	2.0860%	1.4900%
Common Equity	\$ 1,431	53.811%	9.2500%	4.9780%	6.9859%	4.9780%
	\$ 2,660	100.00%		7.0640%	9.0719%	6.4680%
					Federal & State Income Tax Rate	28.742% 3/
					Pretax "Gross-up" Factor	1.40335
					After Tax Return on Equity	4.9780% 1/
					Income Tax Component	2.0079% 4/
					Interest Expense Component	2.0860%
					Pre-tax Return	9.0719%

1/ Rounding forced to equity.

2/ Shown here as a component of the pretax rate of return. Can also be computed as 70.56% gross up on After Tax Return on Equity.

3/ Refer to Attachment 5: Effective Tax Rates.

4/ Shown here as a component of the pretax rate of return. Can also be computed as 40.335% gross up on After Tax Return on Equity.

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Attachment 8
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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
	:	
-vs-	:	
	:	
The Peoples Gas Light and Coke	:	Docket No. 18-0189
Company	:	
	:	
North Shore Gas Company	:	Docket No. 18-0190
	:	
Ameren Illinois Company	:	Docket No. 18-0191
d/b/a Ameren Illinois (gas operations)	:	
	:	
Northern Illinois Gas Company	:	Docket No. 18-0192
d/b/a Nicor Gas Company	:	
	:	
Illinois-American Water Company	:	Docket No. 18-0193
	:	
Aqua Illinois, Inc.	:	Docket No. 18-0194
	:	
MidAmerican Energy Company	:	Docket No. 18-0195
	:	
Mt. Carmel Public Utility Co.	:	Docket No. 18-0196
	:	
Liberty Utilities (Midstates Natural Gas)	:	Docket No. 18-0197
Corp. d/b/a Liberty Utilities	:	
	:	
Consumers Gas Company	:	Docket No. 18-0198
	:	
Illinois Gas Company	:	Docket No. 18-0199
	:	
Bahl Water Corporation	:	Docket No. 18-0200
	:	
Cedar Water Company, Inc.	:	Docket No. 18-0201
	:	
David M. Smith, d/b/a Colonial Meadows	:	Docket No. 18-0202
Water Company	:	
	:	
Forestview Utilities Corporation	:	Docket No. 18-0203
	:	
Powers Water Company, Inc.	:	Docket No. 18-0204

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Rockvale Corporation	:	Docket No. 18-0205
	:	
Rockwell Utilities, LLC	:	Docket No. 18-0206
	:	
Silvis Heights Water Corporation	:	Docket No. 18-0207
	:	
Utility Services of Illinois, Inc.	:	Docket No. 18-0208
	:	
Sundale Utilities, Inc.	:	Docket No. 18-0209
	:	
Order initiating investigations into the impact on the rates of Illinois Public Utilities due to changes in state and federal corporate income tax obligations.	:	

ORDER

By the Commission:

In a Staff Report dated January 22, 2018, the Staff of the Financial Analysis Division of the Illinois Commerce Commission's Public Utilities Bureau detailed recent significant changes in federal and state income tax law. Specifically (1) S.B. 9 (Public Act 100-0022) increased the state corporate income tax rate from 5.25% to 7.0%, making the total Illinois corporate tax rate 9.5% when combined with the 2.5% personal property replacement tax; and (2) Public law No. 115-97, commonly known as the Tax Cuts and Jobs Act of 2017, changed the federal corporate income tax rate from 35% to 21%. Staff recommends the Commission initiate an investigation of the impact of these two changes in tax law on the rates currently in effect for each Illinois public utility subject to rate-of-return regulation.

Staff further recommends that Illinois public utilities be authorized to reduce rates to reflect the net impact of the reduction in the federal income tax component of the cost of service to the new rate of 21% and the increase in the state income tax component of the cost of service to the new rate of 9.5%, or be under order to show cause why an overall reduction is inappropriate. Staff points out that this investigation would provide a forum in which the company, Staff and any intervening parties can express their views on each company's response to the changes in tax rates, pursuant to Sections 9-102, 9-201, 9-202 and 9-250 of the Public Utilities Act.

The Commission considers Staff's recommendation well-taken and finds that proceedings should be initiated to investigate the impact of the changes in state and federal tax laws on each Illinois public utility subject to rate-of-return regulation or formula rates. The Commission further recognizes that the electric operations of Commonwealth Edison and Ameren Illinois are subject to formula rates pursuant to Section 16-108.5 of the Public Utilities Act, which requires the company's revenue requirements to be

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Attachment 8
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reconciled annually to actual costs, making it unnecessary to add those companies as respondents in this docket. Moreover, the Commission granted Commonwealth Edison's petition to reduce rates to reflect the tax change (Docket No. 18-0034) and Ameren appears likely to file a similar request imminently.

Each such company, as identified in the caption to this order, is required, no more than 30 days from the date of this initiating order, to (a) file revised tariffs to reflect rates which shall take effect no more than 15 days after filing and which reflect a federal income tax component of cost of service based on a statutory rate of 21% and a state income tax component of cost of service based on a statutory rate of 9.5%, along with sufficient work papers to show the derivation and propriety of the reduced rates, or (b) show cause why the Commission should not lower rates in this proceeding to reflect the reduced net tax burden. For example, a company might show cause by demonstrating that the company is not over-collecting from ratepayers, notwithstanding the changes in the tax laws; or that the tax issue is more appropriately addressed in another currently docketed proceeding.

Given the time sensitive nature of this matter, the utilities are encouraged to work with Staff and intervening parties to identify the terms and conditions of the revised rider in advance of filing. However, the required filings, and the review and investigation of those filings, will take time. It is therefore necessary to create a mechanism whereby the Commission can take the time necessary to conduct its investigations without sacrificing the ability to capture for ratepayers the benefits of any net tax reduction accruing during the period investigations are being conducted. While the Commission will not at this time enter orders fixing temporary rate schedules, it appears to the Commission that the changed corporate income tax rates may result in the net income of one or more utilities exceeding the amount required for a reasonable return, if the corporate tax changes are not reflected in rates. Accordingly, effective as of the date of this Order, each company shall begin to accrue in the appropriate account the net amount of the difference between revenues billed under rates in effect pursuant to the company's most recent rate order, and the revenues that would have been billed had the tax changes been in effect. Accrual will continue until such accrual is no longer necessary, either because a revised tariff reflecting reduced rates is effective, or because the Commission issued a final order in this or another docket which prospectively addresses the rate changes. This net accrued liability will be considered "revenue subject to refund" and will be used to fund any refunds ultimately granted if it is determined that a rate reduction is warranted, which may be deemed to take effect on the date of this order. For purposes of this order, the net regulatory liability shall accrue in the following accounts:

Gas and/or Electric Utilities: Account 254, Other Regulatory Liabilities
Water and/or Sewer Utilities: Account 253.1, Regulatory Liabilities

The Commission, having reviewed the record in this case and being fully advised in the premises, is of the opinion and finds as follows:

- (1) that it has jurisdiction of the subject matter of this case and the parties hereto;

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- (2) that the recitals of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (3) that the Staff Report dated January 22, 2018 should be made part of the record in this case;
- (4) that proceedings should be initiated to investigate the net impact of the tax changes on cost of services and to determine the appropriate rate reduction to reflect those impacts.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that, proceedings be initiated to formally review the consequences of the changes in state and federal tax law on the cost of service and the appropriate level of ratepayer refunds to reflect these changes.

IT IS FURTHER ORDERED that, effective as of the date of this order, each utility shall accrue the net amount of the difference between revenues billed under rates in effect pursuant to the Company's most recent rate order, and the revenues that would have been billed had the (a) Illinois state income tax component of the cost of service been based upon the statutory rate of 9.5% instead of 7.75%, as provided for under Public Act 100-0022, and the (b) Federal income tax component of the cost of service been based upon the statutory rate of 21% instead of 35%, as provided in the 2017 Tax Cuts and Jobs Act. This net accrued liability will be considered "revenue subject to refund" and will be used to fund any refunds ultimately granted if it is determined that a rate reduction is warranted, which may be deemed to take effect on the date of this order.

IT IS FURTHER ORDERED that, no more than 30 days from the date of this order, each named utility shall (a) file revised tariffs to reflect rates which take effect on statutory notice and which reflect a federal income tax component of cost of service based on a statutory rate of 21% and a state income tax component of cost of service based on a statutory rate of 9.5%, along with sufficient work papers to show the derivation and propriety of the reduced rates, or (b) show cause why the Commission should not lower rates in this proceeding to reflect the reduced net tax burden.

IT IS FURTHER ORDERED that the Staff Report dated January 22, 2018, be made a part of the record of this case.

IT IS FURTHER ORDERED that the Office of the Chief Clerk is directed to serve a copy of this Order upon each of the utilities listed in the caption.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is not final and is not subject to the Administrative Review Law.

By order of the Commission this 25th day of January, 2018.

Docket No. E, G-999/CI-17-895
Attachment 8
Page 5 of 5

(SIGNED) BRIEN SHEAHAN
Chairman

**State Of Minnesota
Office Of The Attorney General
Utility Information Request**

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota **MPUC Docket No.** E015/GR-16-664

Requested from: Minnesota Power

By: Ryan Barlow **Date of Request:** March 13, 2018
Telephone: (651) 757-1473 **Due Date:** March 23, 2018

For all responses show amounts for Total Company and the Minnesota retail jurisdiction unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and non-regulated operations.

Reference: Fitch Group

Produce all written communication, including emails and other forms of electronic communication, exchanged between MP and Fitch Group since the deliberation was concluded.

RESPONSE:

Minnesota Power/ALLETE does not have any debt rated by Fitch Group and there have been no communications between Minnesota Power and Fitch Group since the deliberations were concluded.

Witness: Patrick L. Cutshall
Response by: Patrick L. Cutshall
Title: ALLETE Vice President & Corporate Treasurer
Department: Investments & Analysis
Telephone: 218-355-3529

**State Of Minnesota
Office Of The Attorney General
Utility Information Request**

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota **MPUC Docket No.** E015/GR-16-664

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For all responses show amounts for Total Company and the Minnesota retail jurisdiction unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and non-regulated operations.

Produce all communication provided to shareholders, including emails and other forms of electronic communication, since the deliberation was concluded.

RESPONSE:

All shareholder communications since deliberations concluded can be found on the ALLETE website at www.allete.com. These communications include press releases, investor presentations, SEC filings and any other information that has been provided electronically.

Witness: Patrick L. Cutshall
Response by: Vincent J. Meyer
Title: Director - Investor Relations and Treasury
Department: Investments & Analysis
Telephone: 218-355-3276

**State Of Minnesota
Office Of The Attorney General
Utility Information Request**

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota **MPUC Docket No.** E015/GR-16-664

Requested from: Minnesota Power

By: Ryan Barlow **Date of Request:** March 16, 2018
Telephone: (651) 757-1473 **Due Date:** March 28, 2018

For all responses show amounts for Total Company and the Minnesota retail jurisdiction unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and non-regulated operations.

Reference: OAG Information Request 1168.

Provide all written communication, including emails and other forms of electronic communication, exchanged between MP and (1) Moody's or (2) S&P between March 13 and March 27, 2018.

RESPONSE:

Minnesota Power objects to this request as overly broad, unduly burdensome, and not reasonably calculated to lead to the discovery of admissible evidence. Notwithstanding these objections, please see Minnesota Power's response to OAG IR 1166.1.

Witness: Patrick L. Cutshall
Response by: Patrick L. Cutshall
Title: ALLETE Vice President & Corporate Treasurer
Department: Investments & Analysis
Telephone: 218-355-3529

**State Of Minnesota
Office Of The Attorney General
Utility Information Request**

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota **MPUC Docket No.** E015/GR-16-664

Requested from: Minnesota Power

By: Ryan Barlow **Date of Request:** March 16, 2018
Telephone: (651) 757-1473 **Due Date:** March 28, 2018

For all responses show amounts for Total Company and the Minnesota retail jurisdiction unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and non-regulated operations.

Reference: OAG Information Request 1168.

Identify all meetings between MP and (1) Moody's or (2) S&P since the Commission's deliberation concluded. For each meeting, state (1) the individuals who were at the meeting, (2) the date, (3) the location, and (4) the topics discussed at the meeting. In addition, produce any power points, handouts or other materials discussed during the meeting.

RESPONSE:

Minnesota Power objects to this request as overly broad, unduly burdensome, and not reasonably calculated to lead to the discovery of admissible evidence. Notwithstanding these objections, please see Minnesota Power's response to OAG IR 1166.1.

Witness: Patrick L. Cutshall
Response by: Patrick L. Cutshall
Title: ALLETE Vice President & Corporate Treasurer
Department: Investments & Analysis
Telephone: 218-355-3529