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June 23, 2010

VIA ELECTRONIC FILING

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of the Application of Minnesota Power for Authority to
Increase Electric Service Rates in Minnesota
Docket No. E-015/GR-09-1151

Dear Dr. Haar:

Minnesota Power hereby submits, via electronic filing, the Annotated Stipulation and Settlement Agreement between the Parties in the above-referenced Docket. This Agreement was previously submitted to the Parties in response to a Minnesota Public Utilities Commission Information Request.

Please contact me at the number above should you have any questions regarding this matter.

Yours truly,

A handwritten signature in black ink, appearing to be 'C. Anderson', written in a cursive style.

Christopher D. Anderson

kl
c: Service List

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

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

Kristie Lindstrom of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 23rd day of June, 2010, she served the Annotated Stipulation and Settlement Agreement in Docket No. E015/GR-09-1151 to the Minnesota Public Utilities Commission and Office of Energy Security via electronic filing. The parties on the attached list were served as so indicated on the service list.

/s/ Kristie Lindstrom

Subscribed and sworn to before
me this 23rd day of June, 2010.

/s/ Jodi Nash

Notary Public - Minnesota
My Commission Expires Jan. 31, 2015

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_9- 1151_contested case list 2
Julia	Anderson	Julia.Anderson@state.mn.us	Office of the Attorney General-DOC	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_9- 1151_contested case list 2
Thomas	Bailey	tbailey@briggs.com	Briggs And Morgan	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Richard	Baxendale		Boise Cascade Corporation	926 Harvard Avenue East Seattle, WA 98102	Paper Service	No	OFF_SL_9- 1151_contested case list 2
John	Berklich		Hibbing Taconite Company	PO Box 589 Hibbing, MN 55746	Paper Service	No	OFF_SL_9- 1151_contested case list 2
William A.	Blazar	bblazar@mnychamber.com	Minnesota Chamber Of Commerce	Suite 1500 400 Robert Street North St. Paul, MN 55101	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Bill	Bond	william.bond@arcelormittal.com	ArcelorMittal USA - Minorca Mine Inc.	PO Box 1 5950 Old Highway 53 Virginia, MN 55792	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Elizabeth	Brama		Briggs and Morgan	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Ronald D.	Cerminaro		United States Steel Corporation	600 Grant Street Pittsburgh, PA 152194776	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Greg	Chandler	greg.chandler@upm-kymmene.com	UPM Blandin Paper	115 SW First Street Grand Rapids, MN 55744	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Scott	Coleman		Minnesota Ore Operations - U.S. Steel	P.O. Box 417 Mountain Iron, MN 55768	Paper Service	No	OFF_SL_9- 1151_contested case list 2

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Darland		Sappi Fine Paper North America	225 Franklin Street Boston, MA 2110	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_9- 1151_contested case list 2
Ronald M.	Giteck	ron.giteck@state.mn.us	Office of the Attorney General-RUD	Residential Utilities Division 445 Minnesota Street, BRM Tower St. Paul, MN 55101	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Elizabeth	Goodpaster	bgoodpaster@mncenter.org	MN Center for Environmental Advocacy	Suite 206 26 East Exchange Street St. Paul, MN 551011667	Paper Service	Yes	OFF_SL_9- 1151_contested case list 2
William	Grant	bgrant@iwla.org	Izaak Walton League, Midwest Office	1619 Dayton Ave Ste 202 St. Paul, MN 551046206	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_9- 1151_contested case list 2
Samuel	Hanson		Briggs And Morgan, P.A.	2200 IDS CenterE 80 South Eighth Street Minneapolis, MN 55402	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_9- 1151_contested case list 2
Linda S.	Jensen	linda.s.jensen@state.mn.us	Office of the Attorney General-DOC	1400 BRM Tower 445 Minnesota Street St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_9- 1151_contested case list 2

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Robert S	Lee	RSL@MCMLAW.COM	Mackall Crouse & Moore Law Offices	1400 AT&T Tower 901 Marquette Ave Minneapolis, MN 554022859	Paper Service	Yes	OFF_SL_9- 1151_contested case list 2
John	Lindell	agorud.ecf@state.mn.us	Office of the Attorney General-RUD	900 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_9- 1151_contested case list 2
Jay	Lofgren	jaylofgren@boisepaper.com	Boise, Inc.	Paper Division 400 - 2nd Street International Falls, MN 56649	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Sarah	Manchester		Sappi Fine Paper North America	225 Franklin Street Boston, MA 2110	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Keith	Matzdorf	keith.matzdorf@sappi.com	Sappi Fine Paper North America	PO Box 511 2201 Avenue B Cloquet, MN 55720	Paper Service	No	OFF_SL_9- 1151_contested case list 2
David	McMillan		Minnesota Power	30 W. Superior Street Duluth, MN 55802	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Andrew	Moratzka	apm@mcmlaw.com	Mackall, Crouse and Moore	1400 AT&T Tower 901 Marquette Ave Minneapolis, MN 55402	Paper Service	Yes	OFF_SL_9- 1151_contested case list 2
Richard L.	Morgan		Sappi Fine Paper North America	P.O. Box 511 2201 Avenue B Cloquet, MN 55720	Paper Service	No	OFF_SL_9- 1151_contested case list 2
Marcia	Podratz	mpodratz@mnpower.com	Minnesota Power	30 W Superior S Duluth, MN 55802	Paper Service	No	OFF_SL_9- 1151_contested case list 2

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Laura	Schlatter	Laura.Schlatter@state.mn.us	Office of Administrative Hearings	P.O. 64620 Saint Paul, MN 55164	Electronic Service	Yes	OFF_SL_9-1151_contested case list 2
William	Schmidt		USG Interiors, Inc.	35 Arch Street Cloquet, MN 55720	Paper Service	No	OFF_SL_9-1151_contested case list 2
Joe	Scipioni		PolyMet Mining, Inc.	P.O. Box 475 County Highway 666 Hoyt Lakes, MN 55750	Paper Service	No	OFF_SL_9-1151_contested case list 2
Bride	Seifert	bseifert@mnchamber.com	MN Chamber of Commerce	400 Robert St. N. #1500 St. Paul, MN 55101-2098	Electronic Service	No	OFF_SL_9-1151_contested case list 2
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Electronic Service	No	OFF_SL_9-1151_contested case list 2
Kathleen D.	Sheehy	kathleen.sheehy@state.mn.us	Office of Administrative Hearings	PO Box 64620 St. Paul, MN 551640620	Electronic Service	Yes	OFF_SL_9-1151_contested case list 2
Jeremy	Smolich		Keetac	PO Box 217 Keewatin, MN 55753	Paper Service	No	OFF_SL_9-1151_contested case list 2
William	Stamets	bill.stamets@state.mn.us	Office of the Attorney General-RUD	Suite 900445 Minnesota Street St. Paul, MN 551012127	Electronic Service	No	OFF_SL_9-1151_contested case list 2

**STIPULATION AND SETTLEMENT AGREEMENT
DOCKET NO. E-015/GR-09-1151**

The parties to the above referenced rate case executing this Stipulation and Settlement Agreement (collectively referred to as the Settling Parties), hereby stipulate and agree as follows:

1. Retail and Wholesale Margins.

- A. The Settling Parties agree that Minnesota Power will realize test year margins from the Large Power class of \$139.6¹ million (or a \$24.4² million increase net of fuel and purchased energy costs over the amount originally identified by Minnesota Power in its initial testimony). The MWh amount listed on the attached exhibit for the LP class reflect these adjusted totals.
- B. The Settling Parties further agree that Minnesota Power will realize test year margins from the Residential/General Service/LLP classes at a combined \$159.3³ million level (or a \$3.0 million increase net of fuel and purchased energy costs over the amount originally identified by Minnesota Power in its initial testimony). The MWh amounts listed on the attached exhibit for the residential, general service and LLP classes reflect these adjusted totals.
- C. In concert with these agreed increased retail margins, the Settling Parties stipulate that Minnesota Power will realize a decrease in test year wholesale margins to \$37.7⁴ million (or a \$7.3 million reduction in the amount originally identified by Minnesota Power in its initial testimony). This reduction includes and incorporates an adjustment for the increase in Boswell 4 generation output of 48⁵ MW.
- D. The Settling Parties further agree that as a result of the foregoing agreements on increased retail revenues, Minnesota Power's jurisdictional cost allocation must also be re-calculated, resulting in an additional allocation of \$11.5⁶ million of the total MP revenue requirement to the retail jurisdiction.

¹ Minnesota Power Marcia Podratz Rebuttal Schedule 3, Page 1 of 2.

² Minnesota Power Marcia Podratz Rebuttal Schedule 3, Page 1 of 2.

³ Minnesota Power Marcia Podratz Rebuttal Schedule 3, Page 2 of 2. (Refer to "Expected Scenario" (middle column) and sum of \$66.6 million, \$37.6 million, and \$55.1 million amounts for each reference class.) The \$3.0 million increase comes from Marcia Podratz Rebuttal Schedule 3, Page 2 of 2 (Residential, General Service, and LLP class margins in "OES/HKH Testimony" column less margins for these same classes in "Original Schedule E-1" column). The MWh and revenues in Podratz Rebuttal Schedule 3 match those in the attached exhibit.

⁴ Average of OES Nancy Campbell Surrebuttal \$40.2 million (Page 49, Line 6) and Peter Seeling Rebuttal \$35.2 million (Page 3, Line 17).

⁵ Minnesota Power Peter Seeling Rebuttal Page 8, Lines 10-13; PJS Rebuttal Schedule 3.

⁶ OES Dale Lusti Hearing Exhibit 2 (DVL-H-2; (Exhibit 107), Column D and Marcia Podratz Rebuttal Schedule 16 Supplemental, Page 1 of 3.

- E. The Settling Parties also agree that future major changes in sales to Large Power customers may have significant impacts on the fairness of this settlement and on Minnesota Power's future profitability. Therefore, the Settling Parties further agree that:⁷
1. Minnesota Power shall file a Margin Impact Analysis with any new or amended Large Power Electric Service Agreement ("ESA") filing where the new or changed electric demand is 25⁸ MW or greater, provided, however, that no Margin Impact Analysis shall be required in the event the collective nominations of Blandin Paper Company, Hibbing Taconite, ArcelorMittal -Minorca, NewPage, USS, and United Taconite ("LP Nomination Level") has averaged less than 596⁹ MWs for the three nomination periods preceding the date of the ESA filing.
 2. For the purpose of this settlement, a Margin Impact Analysis shall be defined as a set of calculations designed to: (a) delineate the net impact of the proposed new or amended Large Power ESA on Minnesota Power's margins as explained more fully on subparagraph below 3 below; (b) provide an update to the end of the last preceding calendar year showing actual margins for that year as compared to the amounts agreed upon in this settlement; and (c) show how such new or amended ESA will impact Minnesota Power's last reported and next projected return on equity levels as reported in the Company's most recently filed Annual Jurisdictional Report.
 3. The Margin Impact Analysis must include detailed information about the amount of power to be purchased by the new or existing customer, gross retail margins resulting from providing service to such customer, and the decrease in wholesale margins necessitated to make this additional retail sale. Further, the rate design and cost of capital used in the Margin Impact Analysis shall be the same as set by the Commission in this rate case. Thus, the Settling Parties intend that the only changes reflected in the Margin Impact Analysis would be to retail margins, wholesale margins, and any significant and reasonable changes in incremental costs (excluding fuel and purchased power costs) attributable to serving any new Large Power customer, to the extent such costs are not offset by revenue contributions from the new or expanded customer. The burden is on Minnesota Power to show that any such changes in incremental costs are not only incremental, but also reasonable and net of all additional margins.
 4. The Settling Parties further agree that, predicated upon the Margin Impact Analysis and any other facts deemed relevant at the time, any party to this settlement may, in lieu of

⁷ This proposal is a refinement of the proposal in OES Witness Ms. Campbell's Direct Testimony, Page 53, Line 1 to Page 57, Line 11 and Surrebuttal Testimony, Page 36, Line 1 to Page 40, Line 2.

⁸ Negotiated amount based on Large Power customer load size. This amount is significantly smaller than the size of MP's current LP customers. See Hearing Exhibit 49 (Podratz Trade Secret Rebuttal), Rebuttal Schedule 4, REVISED Schedule E-1, Page 31 of 50.

⁹ 10% of Large Power customers' total Incremental Production Service Threshold of 662 MW. This number is calculated by adding the nomination levels for each of these customers, which are found within Ms. Podratz's Rebuttal Testimony, Rebuttal Schedule 4, as follows:

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requesting the filing of a new general rate case proceeding, petition the Commission for an adjustment to Minnesota Power's retail rate levels. Each of the Settling Parties agrees not to contest such a petition on the grounds that single issue ratemaking is not lawful.

- F. Minnesota Power further agrees that it will not file a new rate proceeding based solely on loss of overall Large Power load until the overall load loss exceeds 10% or LP Nominations fall below 596 MW for greater than one year. The language in the preceding sentence does not prohibit Minnesota Power from filing a new rate proceeding immediately based on the shutdown or closure of a single Large Power customer.
- G. The Settling Parties agree that this Paragraph 1 of this Stipulation and Settlement Agreement is subject to a condition subsequent for the benefit of all Settling Parties. That condition subsequent will either have been satisfied or not before the Commission makes its determination in this case. That condition subsequent is that by August 2, 2010 the LP Nomination Level shall be 662 MW or higher.

2. Rate of Return on Equity, Capital Structure and Calculation of the Cost of Long-Term Debt.

The Settling Parties agree that the rate of return on equity ("ROE") for Minnesota Power should be deemed to be 10.38%¹⁰, and that the appropriate equity ratio in the capital structure for Minnesota Power should be deemed to be 54.29%.¹¹ The Settling Parties further agree that Minnesota Power's proposed cost of long term debt should be updated to reflect the actual costs of the new debt issued in February 2010 and the actual costs of new mid-year long term debt issuance.¹² The Settling Parties further agree that the cost of variable rate debt should be deemed to be 1.0%.¹³

3. Boswell 3 & 4 Operating and Maintenance Expense Adjustments.

Minnesota Power agrees to remove non-recurring operations and maintenance ("O&M") expenses for Boswell 3 & 4 from the test year revenue requirement, resulting in a \$2.631¹⁴ million adjustment. This reduction to the overall revenue requirement is calculated by adding together two figures, calculated as follows:

(i) Of the total Company non-recurring Boswell 3 O&M expenses of \$1.023 million, the Minnesota jurisdictional O&M expenses of \$0.844¹⁵ million related to Boswell 3 will be capitalized to CWIP in accordance with the FERC Uniform System of Accounts;

¹⁰ OES Dr. Eilon Amit Surrebuttal Page 7, Line 21

¹¹ Minnesota Power Donald Stellmaker Rebuttal Page 37, Line 18 and Rebuttal Schedule 1, Page 1 of 1.

¹² Minnesota Power Donald Stellmaker Rebuttal Page 28, Lines 13-20; LPI Lane Kollen Surrebuttal Page 22, Lines 3-9.

¹³ LPI Lane Kollen Direct Page 31, Line 14 to Page 33, Line 9.

¹⁴ LPI Lane Kollen Direct Page 24, Line 19 to Page 25, Line 22 (capitalizing \$0.844 million Boswell 3) and Pages 26, Line 3 to Page 27, Line 8 (\$1.787 reduction in Boswell 4 O&M via three-year amortization of \$3.25 million).

¹⁵ See Footnote 14. Note that the Minnesota jurisdictional amount was based on Minnesota Power's original (rather than rebuttal) jurisdictional allocation factor.

(ii) The total Company non-recurring Boswell 4 O&M expenses of \$3.25 million will be amortized over three years, which has the effect of reducing the Boswell 4 O&M expenses by \$2.167 million on a total Company basis or \$1.787¹⁶ on a Minnesota jurisdictional basis.

4. Boswell 3 Environmental Retrofit Costs.

In consideration of this overall Stipulation and Settlement Agreement, the Settling Parties agree that Minnesota Power shall recover, and incorporate into rate base, \$223¹⁷ million of total Company costs associated with the Boswell 3 environmental retrofit. Minnesota Power will depreciate no more than \$223 million for regulatory purposes. The Settling Parties further agree that unrecovered Boswell 3 Rider revenues were intended to replace AFUDC during the construction phase of this project, and that therefore Minnesota Power shall be able to capitalize on a total Company basis the \$20.5¹⁸ million in unrecovered Rider revenues as Property Plant and Equipment as part of the Boswell 3 project and depreciate them accordingly. Minnesota Power agrees that no further filings, tracker account recovery mechanisms or proceedings of any nature with respect to Boswell 3 ratemaking will be made.

5. Reservations

A. Each of the provisions of this Stipulation and Settlement Agreement is in consideration for each and every other provision. If the Commission does not approve this agreement in its entirety and without modification, any Party to this Stipulation and Settlement Agreement may declare it to be null and void at its sole option.

B It is understood and agreed that all offers of settlement and discussions related thereto are privileged and may not be used in any manner in connection with proceedings in this case or otherwise, except as provided by law. In the event the Commission does not approve this Stipulation and Settlement Agreement, this Stipulation and Settlement Agreement shall not constitute part of the record in this proceeding and no part thereof may be used for any purpose in this proceeding or otherwise. This Stipulation and Settlement Agreement shall not in any respect constitute a determination by the Settling Parties hereto as to the merits of any specific allegations or contentions made by the Settling Parties.

C. This Stipulation and Settlement Agreement may be executed in counterparts.

¹⁶ See Footnote 14. Note that the Minnesota jurisdictional amount was based on Minnesota Power's original (rather than rebuttal) jurisdictional allocation factor.

¹⁷ Sum of \$237.8 million (Minnesota Power Allan Rudeck Rebuttal Page 3, Line 5 and Rebuttal Schedule 5), *less* \$19.8 million (OES Nancy Campbell Surrebuttal Page 47, Line 12) *plus* \$5 million (OES adjustment due to additional information from Minnesota Power, reducing uncertainty in project cost amount from that first identified in OES Nancy Campbell Direct Pages 18-19).

¹⁸ \$20.8 million from OES Nancy Campbell Surrebuttal Page 47, Line 19, less \$0.3 million in additional collections noted in OES Nancy Campbell Surrebuttal at Page 22, Lines 2-6 and Hearing Exhibit 97.

D. Except for the permanent effect of Paragraphs 3 and 4 above, this Stipulation and Settlement Agreement shall remain in effect until a final order is issued by the Commission in Minnesota Power's next general rate case proceeding.

Minnesota Power

By: _____
David J. McMillan
Executive Vice President

Date: _____

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**MPUC IR 1 (RH) Attachment.doc
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Office of Energy Security

By: _____

Date: _____

Large Power Intervenors

By: _____
Robert S. Lee

Date: _____

Attorney for Arcelor Mittal USA; UPM-Blandin Paper Company, Hibbing Taconite Company, Mesabi Nugget Delaware, LLC; NewPage Corporation; PolyMet Mining, Inc.; Sappi Cloquet, LLC; United States Steel Corporation and United Taconite, LLC

Minnesota Chamber of Commerce

By: _____ Date: _____
Bill Blazar
Senior Vice President, Public Affairs and Business Development

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**MPUC IR 1 (RH) Attachment.doc
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Office of the Attorney General

By: _____

Date: _____

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Energy Cents Coalition

By: _____

Date: _____

