minnesota power
AN ALLETE COMPANY

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November 11, 2015

VIA ELECTRONIC FILING

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

RE: Minnesota Power's Petition for Approval of Affiliated Interests Between ALLETE, Inc. and ALLETE Clean Energy
Docket No: E015/AI-15-712

Dear Mr. Wolf:

Please find attached for filing with the Minnesota Public Utilities Commission ("Commission") Minnesota Power's Reply Comments in the Docket referenced above.

Yours truly,

Christopher D. Anderson

jmn
Attachments

STATE OF MINNESOTA	)	AFFIDAVIT OF SERVICE VIA
	) ss	ELECTRONIC FILING
COUNTY OF ST. LOUIS	)	

Jodi Nash of the City of Duluth, County of St. Louis, State of Minnesota, says that on the **11th** day of **November, 2015**, she served Minnesota Power's Reply Comments on the Minnesota Public Utilities Commission and the Office of Energy Security via electronic filing. All other parties were served as noted on the attached Service List.

Jodi Nash

Last Name	First Name	Email	Company Name	Delivery Method	View Trade Secret
Anderson	Julia	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	Electronic Service	Yes
Anderson	Christopher	canderson@allete.com	Minnesota Power	Electronic Service	No
Fazio	Emma	emma.fazio@stoel.com	Stoel Rives LLP	Electronic Service	No
Ferguson	Sharon	sharon.ferguson@state.mn.us	Department of Commerce	Electronic Service	No
Hodnik	Margaret	mhodnik@mnpower.com	Minnesota Power	Electronic Service	No
Hoyum	Lori	lhoyum@mnpower.com	Minnesota Power	Electronic Service	No
Krikava	Michael	mkrikava@briggs.com	Briggs And Morgan, P.A.	Electronic Service	No
Larson	Douglas	dlarson@dakotaelectric.com	Dakota Electric Association	Electronic Service	No
Larson	James D.	james.larson@avantenergy.com	Avant Energy Services	Electronic Service	No
Lindell	John	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	Electronic Service	Yes
Ludwig	Susan	sludwig@mnpower.com	Minnesota Power	Electronic Service	No
Marshall	Pam	pam@energycents.org	Energy CENTS Coalition	Electronic Service	No
Minke	Herbert	hminke@allete.com	Minnesota Power	Electronic Service	No
Moeller	David	dmoeller@allete.com	Minnesota Power	Electronic Service	Yes
Moratzka	Andrew	apmoratzka@stoel.com	Stoel Rives LLP	Electronic Service	No
Peterson	Jennifer	jjpeterson@mnpower.com	Minnesota Power	Electronic Service	No
Romans	Susan	sromans@allete.com	Minnesota Power	Electronic Service	No
Scharff	Thomas	thomas.scharff@newpagecorp.com	New Page Corporation	Electronic Service	No
Spangler, Jr.	Ron	rlspangler@otpco.com	Otter Tail Power Company	Electronic Service	No
Swanson	Eric	eswanson@winthrop.com	Winthrop Weinstine	Electronic Service	No
Turnboom	Karen	karen.turnboom@newpagecorp.com	NewPage Corporation	Electronic Service	No
Wolf	Daniel P	dan.wolf@state.mn.us	Public Utilities Commission	Electronic Service	Yes

STATE OF MINNESOTA

BEFORE THE

MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of Minnesota Power's Petition for Approval of Affiliate Interests Between ALLETE and ALLETE Clean Energy	Docket No. E-015/AI-15-712 **REPLY COMMENTS**

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I. Introduction

Minnesota Power provides these late-filed Reply Comments in response to the Department of Commerce Division of Energy Resources ("Department") Comments dated September 30, 2015 in the above-referenced Docket. The Department concerns can be summarized as follows:

II. Issues Identified by the Department

In its comments, the Department noted that Minnesota Power's responses to Information Request Nos. 1, 2 and 6 indicated that Lake Superior Place is not included in rate base, the terms of the lease were largely the same, and the spreadsheet provided showed comparable lease amounts from what is charged affiliate ACE and non-affiliates. The Department concluded that ratepayers are not subsidizing the ACE affiliate regarding rent amounts and general terms of the lease; however, the Department requested that Minnesota Power provide the following additional information regarding its lease with ACE:

1) Whether there was any penalty or fee charged to ACE as a result of early termination of their lease:

We assume this inquiry is with regard to ACE terminating the lease in the General Office Building. ACE provided the required termination notice. The lease does not allow ALLETE, Inc. to charge a fee on these facts. The operative lease provision is stated in the last sentence of Section 3:

> Landlord and Tenant shall each have the right to terminate this lease upon six (6) months written notice to the other party during the Term of this Agreement.

2) Whether this treatment is consistent with the terms of lease agreements with non-affiliates:

There is only one other lease for office space in the General Office Building. The Minnesota Power Employees Credit Union (MPECU) is the tenant, and is not an affiliate of Minnesota Power. The treatment described above is consistent with the MPECU lease. However, the lease with MPECU requires 12 months' notice by either party to terminate. This longer notice period is due to the MPECU office lease covering significantly more space than the ACE office lease in the General Office Building. The MPECU lease covers a total of 7002 square feet in three locations.

3) how the phrase "may be increased pursuant to a Consumer Price Index amount annually each July 1 beginning in 2016" will be applied to ACE.

Acting through our contracted property management company, Oneida Realty, we will calculate the amount of the escalator by using the CPI-U for the year ending December 2015. We will increase the rent for the upcoming year of the term by the corresponding amount and inform the tenant of the escalator and increased rent amount in May of 2016, and this process will be repeated each year thereafter.

4) Whether this application is consistent with the way other non-affiliate entities are treated.

Yes, the application of this phrase is consistent with the way other non-affiliate entities are treated if their leases contain the same escalation clause.

The Department also requested information regarding Minnesota Power's structure and allocators. Specifically, the Department requested Minnesota Power to (1) reconcile their perceived inconsistency in Minnesota Power's responses to the

Department's Information Request Nos. 6 and 9, which it states the responses appear to indicate both that there are and are not shared employees in MP/ALLETE, Inc. and ACE; (2) explain how Minnesota Power's "Corporate Equity" allocator is a cost causative allocator; (3) explain how Minnesota Power's "Corporate Equity" allocator is superior to the Commission's "Expenses less purchase goods sold" allocator; and (4) explain how Minnesota Power's "Corporate Equity" allocator does not harm ratepayers?

The Department's specific concerns are addressed in the order they were raised in the Initial Comments.

(1) Reconcile their perceived inconsistency in Minnesota Power's responses to the Department's Information Request Nos. 6 and 9, which it states the responses appear to indicate both that there are and are not shared employees in MP/ALLETE, Inc. and ACE:

There is an inconsistency in the answer, which can be rectified as follows: the response to IR 9 governs and is accurate – there are no "shared employees" per se such that list could be created of individuals who work for both entities. As IR 9 indicated, an individual is either an ACE employee or an ALLETE/MP employee. In either case, the employee charges their time in providing any work product to the other via direct charging – and the vast majority of the time the charges run from ALLETE/MP to ACE. The response to IR 6 inartfully used the "shared service" language to identify those employees of ALLETE/MP who may work on an ACE project or matter (for example, someone in Legal, Tax, Human Resources or Accounting). The direct charging of time (as well as the general allocation of time that cannot be direct charged) ensures that ACE pays its share of the employees' time, and has the added benefit of reducing overall costs for Minnesota Power ratepayers.

(2) Explain how Minnesota Power's "Corporate Equity" allocator is a cost causative allocator,

and

(3) Explain how Minnesota Power's "Corporate Equity" allocator is superior to the Commission's "Expenses less purchase goods sold" allocator:

In November 2002, the Energy Division of the Minnesota Department of Commerce requested that the Commission accept Minnesota Power's October 15, 2002 compliance filing in Docket No. E015/M-01-1416 which, among other allocation processes, addressed Minnesota Power's use of a Corporate Equity allocator in lieu of the "Expenses less purchase goods sold" allocator. As part of the outcome of the proceedings in this Docket, "Minnesota Power addressed the Department's concern regarding the use of a corporate equity allocator by providing evidence of its limited scope as presented in the original Petition and Minnesota Power action since that time to further limit its use through direct charging and alternate allocators." Later, as part of the information request process in E015/GR-09-115, the OES questioned the Company's allocation process (OES IR 134). Included in the Company's responses to those questions was the following explanation of the Corporate Equity allocator employed by Minnesota Power:

> "<u>Corporate Equity</u> is calculated utilizing the amount of equity investment in various entities – ALLETE/MP, MP Lines of Business and ALLETE Subsidiaries. It is not the intent to claim equity as a causative factor of increased activity, however, it is an available "number" that often can be equated with the value of an entity and as such it is often interpreted that the activity support for an entity increases with it's value. Minimal use of the method is desired. The intent is to utilize this solely for those costs that are associated with investors or shareholders where the concept of "value" = "equity" may be valued."

As discussed and agreed to in the 2002 meeting between Minnesota Power and the Department of Commerce, and as filed in annual compliance filings, rate cases, and as reiterated above, Minnesota Power does not claim that equity is a causative factor but that it does provide a number equivalent with an entity's value and, therefore, level of support activities. Minnesota Power has not and is not claiming that the "Corporate Equity" allocator in use is superior to the Commission's "Expenses less purchase goods sold" allocator, but rather that it is an alternate method based on an entity's value for assigning support activity costs that has been agreed to and consistently in use since 2002.

(4) explain how Minnesota Power's "Corporate Equity" allocator does not harm ratepayers

Information Request 15 in this Docket (which response is attached) requested that Minnesota Power recalculate regulated and non-regulated percentages using the "Expenses less purchased goods sold" process – and the results of that methodology are consistent with the "Corporate Equity" allocator currently in use. Minnesota Power believes that the "Corporate Equity" allocator, which is used for allocating Board of Director and Investor Relations costs, more directly aligns such expenses with the actual value of each entity.

III. Conclusion

Minnesota Power appreciates the opportunity to address the Department's questions and concerns regarding affiliate related issues in connection with this Petition. Minnesota Power hopes that these Reply Comments have provided the Department the additional information it requires in order to find the ALLETE Clean Energy Lease consistent with the public interest.

Dated: November 11, 2015

Respectfully submitted,

Christopher D. Anderson
Associate General Counsel
Minnesota Power
30 West Superior Street
Duluth, MN 55802
218-723-3961

State of Minnesota

DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Nonpublic [ ]
Public [x]

Utility Information Request

Docket Number: E015/AI-15-712 Date of Request: 8/10/2015

Requested From: Minnesota Power Response Due: 8/20/2015

Analyst Requesting Information: Nancy Campbell

Type of Inquiry:			
	[X]….Financial	[ ]….Rate of Return	[ ]….Rate Design
	[ ]….Engineering	[ ]….Forecasting	[ ]….Conservation
	[ ]….Cost of Service	[ ]….CIP	[ ]….Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
15	Reference: May 29, 2015 Compliance Filing in Docket Nos. E015/M-01-1416 and E015/AI-11-868 Exhibit E For "ALLOC12" which allocates Board of Directors and Investor Relations Costs, please recalculate the percentage of regulated and non-regulated percentages (like Exhibit D) using the allocator "Expenses less purchased goods sold" consistent with the Commission's March 7, 1995 and September 28, 1994 Orders in Docket G,E-999/CI-90-1008.

RESPONSE:

See OES IR 15 Attachment for the calculation of percentages using "Expenses less purchased goods sold." Expenses are based on YTD June 2015 information.

Response by: Julie Fender
Title: Supervisor
Department: Accounting
Telephone: (218) 355-3723

List sources of information:

2015 Budget Allocations By Method

IR No. 15

Special	Activity Description	Allocation Method	Reg %	Non-Reg %	SWLP 700 %	BNI 708 %	US Water 732 %	RR WI 737 %	MP Ent 724 %	ACE Parent 741 %	TS 747	NW 748	SL1 746	SL2 744	LB 743	COND 742	Real Estate 726 %	Total
Information based on YTD June 2015 information																		
Expenses method																		
1010	Board of Directors	ALLOC12	71.2	6.2	3.6	0.6	11.0	0.0	0.2	2.4	0	0.2	0.7	0.7	0.7	0.8	1.7	100.0
3030	Investor Relations	ALLOC12	71.2	6.2	3.6	0.6	11.0	0.0	0.2	2.4	0	0.2	0.7	0.7	0.7	0.8	1.7	100.0