

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: April 23, 2014..... *Agenda Item # 5

Company: Minnesota Power (“MP” or the “Company”)

Docket No. E015/S-14-145

In the Matter of Minnesota Power’s Request Under Minnesota Statutes Section § 216B.49 for Approval of ALLETE Inc.’s Consolidated Capital Structure and Authorization to Issue Securities

Issue(s): Should the Commission approve Minnesota Power’s request for approval to issue securities?

Should the Commission approve ALLETE Inc.’s (ALLETE) proposed consolidated capital structure and capitalizations?

Should the Commission require Minnesota Power to file additional information?

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Relevant Documents

Minnesota Power’s Petition February 14, 2014
Department of Commerce (“Department”) Comments March 17, 2014
Minnesota Power Reply Comments March 21, 2014

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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Statement of the Issue

Should the Commission approve Minnesota Power's request for approval to issue securities?

Should the Commission approve ALLETE's proposed capital structure and capitalizations?

Should the Commission require Minnesota Power to file additional information?

Relevant Statute

Minn. Stat. § 216B.49, subd. 3:

It is unlawful for any public utility organized under the laws of this state to offer or sell any security or, if organized under the laws of any other state or foreign country, to subject property in this state to an encumbrance for the purpose of securing the payment of any indebtedness unless the security issuance of the public utility is first approved by the commission, either as an individual issuance or as one of multiple possible issuances approved in the course of a periodic proceeding reviewing the utility's proposed sources and uses of capital funds. Approval by the commission must be by formal written order.

Subd. 4 of the same statute states:

Upon the application of a public utility for approval of its security issuance and prior to the issuance of any security or the encumbrance of any property for the purpose of securing the payment of any indebtedness, the commission may make such inquiry or investigation, hold such hearings, and examine such witnesses, books, papers, documents, or contracts, as in its discretion it may deem necessary. Prior to approval the commission shall ascertain that the amount of securities of each class which any public utility may issue shall bear a reasonable proportion to each other and to the value of the property, due consideration being given to the nature of the business of the public utility, its credit and prospects, the possibility that the value of the property may change from time to time, the effect which the issue shall have upon the management and operation of the public utility, and other considerations which the commission as a matter of fact shall find to be relevant. If the commission shall find that the proposed security issuance is reasonable and proper and in the public interest and will not be detrimental to the interests of the consumers and patrons affected thereby, the commission shall by written order grant its permission for the proposed public financing.

Background

On February 14, 2014, Minnesota Power filed a petition requesting Commission approval of its proposed 2014 capital structure and for authorization to issue securities.

On March 17, 2014, the Department filed comments recommending approval of Minnesota Power's request.

On March 21, 2014, Minnesota Power filed reply comments.

Party Positions

MP's Petition

In its request for approval of its proposed 2014 capital structure, the Company is seeking approval of:

- Total capitalization of \$3,805 million, including a contingency of \$349 million;
- An equity ratio of 54.40% with a contingency range of +/- 10%, (resulting in an equity range of 48.96% - 59.84%);
- A request for a variance of Minn. Rules 7825.1000, subp. 6 to allow the Company to treat borrowings under multi-year credit agreements as short-term debt for approved capital structure purposes;
- The ability to issue short-term debt not to exceed 15% of total capitalization;
- The flexibility to issue long-term debt, provided it remains within the limits approved for the short-term debt and equity ratios, as well as the total capitalization limit;
- The flexibility to issue securities provided that the Company remains within the approved capital structure ratios or does not exceed them for more than 60 days;
- The Company's consolidated capital structure for the period beginning with the date of issuance of an Order in this Docket through the later of: (i) May 1, 2015 or (ii) the date at which the Commission issues a subsequent order.

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

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

Department of Commerce

The Department's review indicated that MP provided all the information required by Minn. Rules 7825.1000 – 7825.1500. The Department's comments discuss the reasonableness of Minnesota Power's projected capital structure and its request to issue various securities. The Department also reviewed the Company's request for (a) a variance to Minnesota Rules 7825.1000, subp. 6, the definition of short-term security; and (b) the filing requirements

specified by the Commission in previous orders. Based on its review and analysis, the DOC concluded that the Company's requested variance meets the three-part test for a variance.

The Department's analysis is not repeated in these briefing papers.

Based on its review and analysis, the Department recommended the following:

A. SECURITIES ISSUANCES AND CAPITAL STRUCTURE

1. Approve ALLETE's 2014 proposed capital structure. This approval will remain effective until the later of May 1, 2015, or the date at which the Commission issues a new capital structure Order;
2. Approve ALLETE's equity ratio contingency of plus/minus 10 percent around its 2014 proposed equity ratio. Equity ratios outside this range may not exceed a period of 60 days without prior Commission approval;
3. Approve ALLETE's total capitalization contingency of \$349 million above its 2014 total capitalization. ALLETE may not exceed its total capitalization including the requested contingency of \$349 million for a period longer than 60 days without prior Commission approval;
4. Approve any issuance of securities in 2014 that would not result in an equity ratio outside the proposed range or a total capitalization exceeding its proposed cap for more than 60 days;
5. Require MP to obtain prior approval for the issuance of any securities in 2014 that would result in an equity ratio outside the approved range or a total capitalization exceeding its approved cap for more than 60 days.
6. Require MP to provide, within 20 days after each non-recurring issuance of securities, the following information:
 - a. The specific purposes for individual issuances;
 - b. The type of issuances;
 - c. The timing of issuances;
 - d. The amounts of issuances;
 - e. Issuance costs (for common equity issuances, include price per share); and
 - f. Interest rates.
7. Require MP to provide, in its next capital structure filing, an exhibit showing a general projection of capital needs, projected expenditures, anticipated sources, and anticipated timing, with the understanding that such exhibit is not intended to require dollar-for-dollar [spending] on the uses identified in the exhibit or to limit issuances to project-specific financing. The exhibit need not list short-term, recurring security issuances.

8. Require MP to provide, in its next annual capital structure filing, a report of actual issuances and uses of the funds from the prior year. The report will be for information purposes only and need not cover short-term recurring security issuances.
9. Require MP to provide, in its next annual capital structure filing, a schedule comparing its actual capital investments in the past year with the capital investments projected by MP in its previous capital structure filing.
10. Require MP to provide, in its next annual capital structure filing, the Company's investment plan not only for the next year but for at least the next five years.
11. Approve MP's request for a variance to allow it to treat any loan under its multiyear credit facility as a short-term debt and require MP to report on its use of such facilities, including:
 - How often they are used;
 - The amount involved;
 - Rates and financing costs; and
 - The intended uses of the financing.

B. POTENTIAL CORPORATE RESTRUCTURING EFFECT ON CREDIT RATINGS

1. Require MP to keep the Commission informed of any corporate restructuring.
2. Require MP to keep the Commission informed of any rating agency action.

Minnesota Power's Reply Comments

In its reply comments Minnesota Power stated that it agrees with the Department's recommendations.

Staff Analysis

As stated above, to Minn. Stat. § 216B.49, subd. 3 requires Minnesota Power to obtain Commission approval prior to issuing securities. The question for the Commission is whether the record contains the information required by the statutes and rules, and is sufficient for the Commission to approve the petition.

The Department's recommendation is consistent with requirements the Commission has previously applied to securities issuance requests. To ensure that its approval is not open-ended, the Commission may want to add a requirement for Minnesota Power to file its request for approval of its 2015 securities issuances no later March 1, 2015.

The Commission may also want to add a clarification that approval of securities issuances, associated cost of debt, and resulting capital structure within this proceeding is not a determination of the appropriate capital structure for rate making purposes. For ratemaking purposes, the Commission reviews these factors within the context of a rate case proceeding.

Decision Alternatives

Some Commission options are:

- A. Adopt the Department's recommendation as agreed to by Minnesota Power
 1. Approve ALLETE's 2014 proposed capital structure. This approval will remain effective until the later of May 1, 2015, or the date at which the Commission issues a new capital structure Order;
 2. Approve ALLETE's equity ratio contingency of plus/minus 10 percent around its 2014 proposed equity ratio. Equity ratios outside this range may not exceed a period of 60 days without prior Commission approval;
 3. Approve ALLETE's total capitalization contingency of \$349 million above its 2014 total capitalization. ALLETE may not exceed its total capitalization, including the requested contingency of \$349 million, for a period longer than 60 days without prior Commission approval;
 4. Approve any issuance of securities in 2014 that would not result in an equity ratio outside the proposed range or a total capitalization exceeding its proposed cap for more than 60 days;
 5. Require MP to obtain prior approval for the issuance of any securities in 2014 that would result in an equity ratio outside the approved range or a total capitalization exceeding its approved cap for more than 60 days.
 6. Require MP to provide, within 20 days after each non-recurring issuance of securities, the following information:
 - a. The specific purposes for individual issuances;
 - b. The type of issuances;
 - c. The timing of issuances;
 - d. The amounts of issuances;
 - e. Issuance costs (for common equity issuances, include price per share); and
 - f. Interest rates.
 7. Require MP to provide, in its next capital structure filing, an exhibit showing a general projection of capital needs, projected expenditures, anticipated sources, and anticipated timing, with the understanding that such exhibit is not intended to require dollar-for-dollar [spending] on the uses identified in the exhibit or to limit issuances to project-specific financing. The exhibit need not list short-term, recurring security issuances.

8. Require MP to provide, in its next annual capital structure filing, a report of actual issuances and uses of the funds from the prior year. The report will be for information purposes only and need not cover short-term recurring security issuances.
9. Require MP to provide, in its next annual capital structure filing, a schedule comparing its actual capital investments in the past year with the capital investments projected by MP in its previous capital structure filing.
10. Require MP to provide in its next annual capital structure filing the Company's investment plan not only for the next year but for at least the next five years.
11. Approve MP's request for a variance to allow it to treat any loan under its multiyear credit facility as a short-term debt and require MP to report on its use of such facilities, including:
 - How often they are used;
 - The amount involved;
 - Rates and financing costs; and
 - The intended uses of the financing.
12. Require MP to keep the Commission informed of any corporate restructuring.
13. Require MP to keep the Commission informed of any rating agency action.

Adopt A above and:

- B. Require MP to file its request for approval of its 2015 securities issuances no later than March 1, 2015.
- C. Clarify that approval of securities issuances, and the resulting capital structure, within this proceeding is not a determination of the appropriate capital structure for rate making purposes.