COMMERCE DEPARTMENT

September 12, 2017

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E017/AI-17-304

Dear Mr. Wolf:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) regarding:

The Petition of Minnesota Power for Approval of Affiliated Interests between ALLETE, Inc. and ALLETE Clean Energy.

The petition was filed on April 19, 2017 by:

Herbert G. Minke
Vice President – Regulatory Affairs
Minnesota Power
30 West Superior Street
Duluth, MN 55802

The Department recommends that **Minnesota Power provide additional information in reply comments**. The Department is available to respond to any questions the Minnesota Public Utilities Commission may have on this matter.

Sincerely,

/s/ DOROTHY MORRISSEY
Financial Analyst

DM/lt
Attachments

COMMERCE DEPARTMENT

# Before the Minnesota Public Utilities Commission

## Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E015/AI-17-304

## I. INTRODUCTION

On April 19, 2017, Minnesota Power (MP or the Company), a division of ALLETE, Inc. (ALLETE), filed an affiliated interest petition with the Minnesota Public Utilities Commission (Commission) requesting approval of the transfer of the Large Generator Interconnection Agreement (LGIA) GS-666, referred to as the Bison 6 LGIA, to its affiliate ALLETE Clean Energy, Inc. (ACE), for the sale price of $121,179. ACE, a wholly owned, indirect subsidiary of ALLETE, owns or develops renewable projects throughout North America.[1]

The Assignment and Assumption of Bison 6 LGIA (Agreement) was executed on April 17, 2017 among Minnesota Power – Transmission, Minnesota Power – Merchant, and ACE.[2] Minnesota Power, including its Merchant and Transmission divisions, is regulated by the Commission, whereas ACE is a non-regulated subsidiary of ALLETE.

MP has received Commission approval of prior affiliated interest agreements between the Company and ACE, including an office lease and the transfer of meteorological towers, in Docket No. E015/AI-11-868 (Docket 11-868).[3] The initial filing in Docket 11-868 included a request to transfer certain Bison LGIAs to ACE on which the Commission took no action.[4] The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) opposed these requested LGIA sales largely because the agreements included transferring 150 MW in capacity rights on MP's Direct Current Line to ACE, which was not shown to be in the public interest.[5]

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[1] ACE is not regulated and has market-based rate authority granted by the Federal Energy Regulatory Commission (FERC). FERC Docket No. ER14-413-000; letter order issued on January 13, 2014.
[2] Initial Filing, Exhibit 1.
[3] Commission Order issued July 23, 2012 in Docket E015/AI-11-868.
[4] *Ibid*, p. 4.
[5] Department of Commerce comments filed December 11, 2011 in Docket E015/AI-11-868.

## II. BACKGROUND AND PETITION SUMMARY

By way of background, ALLETE's Bison Wind Project initiative consists of six proposed generation facilities located in North Dakota, for which six separate large generator interconnection agreements were established; however of those six wind power production facilities, MP developed only five sites (totaling 496.6 MW). The remaining Bison 6 wind generation project site (a/k/a Clean Energy #1) is undeveloped and the existing Bison 6 LGIA intended for the future Bison 6 wind generation site is available.

MP stated that the Bison 6 LGIA remains unutilized with an available transmission capacity of approximately 100 MW on the AC system.[6] MP explained that the Bison 6 LGIA is currently in suspension, and unless it is brought out of suspension with a request to the Transmission Provider (Minnesota Power) to recommence work on a wind project on or before February 4, 2018, MISO will terminate the LGIA.[7] MP stated that it is unable to utilize the Bison 6 LGIA on or before the end of this suspension period.

In this instant docket, MP explained that the Bison 6 LGIA will be acquired and utilized by ALLETE Clean Energy in the development and interconnection of ACE's Clean Energy #1 Wind Project for which Xcel Energy has contracted a 20-year Power Purchase Agreement (PPA).[8] The sale price of $121,179 represents reimbursement to MP for its transmission study costs and transmission allocation from other MISO transmission owners, and other miscellaneous costs associated with the transfer of the Bison 6 LGIA. MP noted that neither ACE nor the Bison 6 LGIA will have transmission rights on MP's fully subscribed 550 MW Direct Current (DC) Line.[9]

In addition, per the terms[10] of the Bison 6 LGIA, ACE, as the now-owner or user of the LGIA, would compensate MP, the seller of the LGIA, for capital expenses incurred, based upon the Bison 6 LGIA's shared use of MP's 230-kV AC transmission system. MP proposed this would result in a one-time payment of approximately $7.7 million. Furthermore, ACE would pay annual operation and maintenance (O&M) payments of approximately $98,892 associated with the transmission facilities, also based upon current allocations.

For MP's own resource needs, per Commission Order to procure 100 - 300 MW of wind capacity,[11] the Company issued a request for proposals (RFP) on July 27, 2016; this RFP made

[6] MP stated that neither ALLETE Clean Energy nor the Bison 6 LGIA will have transmission rights to use Minnesota Power's fully subscribed 550 MW Direct Current (DC) Line. See Initial Filing, p. 4.
[7] Initial Filing, p. 4.
[8] Docket No. E002/M-16-777
[9] Initial Filing, pp. 4-5. MP's DC Line is fully subscribed for the transmission of the Bison 1 – 4 Projects (496.6 MW) and Oliver County I and II (98.6 MW) PPA energy resources to MP's service territory.
[10] Section 9.9.2 of the Bison 6 LGIA, and in accordance with its Appendix A-2.
[11] Commission Order issued July 18, 2016 in Docket No. E015/RP-15-690.

the Bison 6 LGIA available to bidders. Although affiliate ACE responded and submitted a proposal to MP that included utilization of the Bison LGIA 6, ACE later withdrew from consideration having submitted a parallel proposal in response to Xcel Energy's 2016 wind RFP that was accepted by Xcel.[12] MP stated that it did not submit a self-bid proposal into its RFP because a new Company-owned project would not have been cost competitive for the 2019-2020 time period.[13]

MP stated that the benefits from these proposed transactions would be passed through to ratepayers through MP's Renewable Resources Rider. This rider was the mechanism used for recovery of the Bison wind projects and related transmission costs prior to the recent rate case (E015/GR-16-664) wherein these facilities were rolled into base rates.

## III. DEPARTMENT ANALYSIS

### *A. STATUTORY REQUIREMENTS FOR AFFILIATED-INTEREST AGREEMENTS*

#### *1. Minn. Stat. §216B.48*

Although the Company's petition omits reference to this statute, the requirements necessary to be met for affiliated-interest agreements are dictated in Minnesota Statute section 216B.48, Subdivision 3 as follows:

> No contract or arrangement, including any general or continuing arrangement, providing for the furnishing of management, supervisory, construction, engineering, accounting, legal, financial, or similar services, and *no contract or arrangement for the purchase, sale, lease, or exchange of any property, right, or thing, or for the furnishing of any service, property, right, or thing*, other than those above enumerated, made or entered into after January 1, 1975 between a public utility and any affiliated interested as defined in subdivision 1, clauses (1) to (8), or any arrangement between a public utility and an affiliated interest as defined in subdivision 1, clause (9), made or entered into after August 1, 1993,

[12] Xcel Energy's 2016 Wind RFP was released September 22, 2016 with a bid response deadline of October 25, 2016. On March 15, 2017, Xcel Energy supplemented its wind generation acquisition filing (Docket No. E002/M-16-777) which included ACE Clean Energy #1 wind resource in its proposed portfolio.
[13] The RFP required commercial operation dates between January 1, 2018 and December 31, 2010. See Section 2.3 of Appendix P to Docket No. RP-15-690 filed July 28, 2017.

> *is valid or effective unless and until the contract or arrangement has received the written approval of the commission.* [Emphasis added]

Minnesota Statute section 216B.48, subd. 3 additionally provides two tests to be applied by the Commission in cases of affiliated-interest contracts; the burden of proof for satisfying these tests rests with the Company:

> *The commission shall approve the contract or arrangement made or entered into after that date only if it clearly appears and is established upon investigation that it is reasonable and consistent with the public interest.* No contract or arrangement may receive the Commission's approval unless satisfactory proof is submitted to the commission of the cost to the affiliated interest of rendering the services or of furnishing the property or service to each public utility. Proof is satisfactory only if it includes the original or verified copies of the relevant cost records and other relevant accounts of the affiliated interest, or an abstract or summary as the commission may deem adequate, properly identified and duly authenticated, provided, however, that the commission may, where reasonable, approve or disapprove the contracts or arrangements without the submission of cost records or accounts. *The burden of proof to establish the reasonableness of the contract or arrangement is on the public utility.* [Emphasis added]

The burden of proof is on the Company to show that the transfer of the Bison 6 LGIA is both reasonable and consistent with the public interest; if the Commission determines that MP has met its burden of proof, the Commission shall approve the request.

Finally, Minnesota Statute section 216B.48, subd. 6 is clear that the Commission has continuing authority over the affiliated-interest agreement if actual experience under the agreement results in what appears to be unreasonable payments:

> Subd. 6. **Commission retains continuing authority over contract.** The commission shall have continuing supervisory control over the terms and conditions of the contracts and arrangements as are herein described so far as necessary to protect and promote the public interest. The commission shall have the same jurisdiction over the modifications or amendment of contracts or arrangements as are herein described as it has over such original contracts or arrangements. The fact that the commission shall

> have approved entry into such contracts or arrangements as described herein shall not preclude disallowance or disapproval of payments made pursuant thereto, *if upon actual experience under such contract or arrangement it appears that the payments provided for or made were or are unreasonable*. [emphasis added]

As discussed below, the Department has requested additional information from MP to further evaluate the reasonableness of this Agreement.

*2. Minn. Stat. §216B.50*

Minn. Stat. §216B.50, Subd. 1 reads:

> **216B.50 RESTRICTIONS ON PROPERTY TRANSFER AND MERGER.**
> Subdivision 1.**Commission approval required.**
> No public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state for a total consideration in excess of $100,000, or merge or consolidate with another public utility or transmission company operating in this state, without first being authorized so to do by the commission. Upon the filing of an application for the approval and consent of the commission, the commission shall investigate, with or without public hearing. The commission shall hold a public hearing, upon such notice as the commission may require. If the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. In reaching its determination, the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.
>
> This section does not apply to the purchase of property to replace or add to the plant of the public utility by construction.

For reasons discussed below in Section III.C.5, the Department concludes that this statute applies to the Company's petition request.

## *B. FILING REQUIREMENTS OF CONTRACTS OR ARRANGEMENTS WITH AFFILIATE*

### *1. Docket No. E, G-999/CI-98-651*

In Docket No. E, G-999/CI-98-651 (98-651) the Commission provided minimum filing requirements that must be satisfied within 30 days of executing a contract or arrangement with an affiliate.[14] This docket also requires that within 30 days of executing a contract or arrangement with an affiliate, the utility must make a filing that includes the following information:

1. A heading that identifies the type of transaction.
2. The identity of the affiliated parties in the first sentence.
3. A general description of the nature and terms of the agreement, including the effective date of the contract or arrangement and the length of the contract or arrangement.
4. A list and the past history of all current contracts or agreements between the utility and the affiliate, the consideration received by the affiliate for such contracts or agreements, and a summary of the relevant cost records related to these ongoing transactions.
5. A descriptive summary of the pertinent facts and reasons why such contract or agreement is in the public interest.
6. The amount of compensation and, if applicable, a brief description of the cost allocation methodology or market information used to determine cost or price.
7. If the service or good acquired from an affiliate is competitively available, an explanation must be included stating whether competitive bidding was used and, if it was used, a copy of the proposal or a summary must be included. If it is not competitively bid, an explanation must be included stating why bidding was not used.
8. If the arrangement is in writing, a copy of that document must be attached.
9. Whether, as a result of the affiliate transaction, the affiliate would have access to customer information, such as customer name, address, usage or demographic information.
10. The filing must be verified.

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[14] Docket No. E, G-999/CI-98-651 *In the Matter of a Commission Investigation into Procedures for Reviewing Public Utility Affiliated Interest Contracts and Arrangements*, ORDER INITIATING REPEAL OF RULE, GRANTING GENERIC VARIANCE, AND CLARIFYING INTERNAL OPERATING PROCEDURES (September 14, 1998).

The Department reviewed the instant petition and concludes that MP complied with the filing requirements outlined in Docket 98-351 as reflected in Section V of MP's initial filing.

*2. Minn. Rule 7825.2200*

Although not referred to within the Company's filing, Minnesota Rule 7825.2200, subp. B establishes filing requirements for petitions requesting approval of affiliate contracts or agreements. The Department reviewed the initial filing and concludes that MP's petition has met the filing requirements under Minnesota Rule 7825.2200, subp. B.

*3. Minn. Rule 7825.1800*

Minn. Rule 7825.1800, Subparts B through D reads:

> **7825.1800 FILING REQUIREMENTS FOR PETITIONS TO ACQUIRE PROPERTY.**
> B. Petitions for approval of a transfer of property shall be accompanied by the following: all information as required in part 7825.1400, items A to J; the agreed upon purchase price and the terms for payment and other considerations.
>
> C. A description of the property involved in the transaction including any franchises, permits, or operative rights, and the original cost of such property, individually or by class, the depreciation and amortization reserves applicable to such property, individually or by class. If the original cost is unknown, an estimate shall be made of such cost. A detailed description of the method and all supporting documents used in such estimate shall be submitted.
> D. Other pertinent facts or additional information that the commission may require.

For the reasons discussed below in Section III.C.5, the Department concludes that this rule applies to the Company's petition request.

*C. ANALYSIS OF PROPOSAL*

*1. Bison 6 LGIA Sale*

MP stated that the $121,179 sale price for the Bison 6 LGIA represents compensation to the Company for its transmission study costs and transmission allocation from other MISO transmission owners, and other miscellaneous costs associated with the transfer of the Bison 6 LGIA.

To evaluate this proposed transaction price, in Information Request No. 1 (DOC IR No. 1), the Department asked the Company to provide support for the Bison 6 LGIA sale price of $121,172.[15] The Company's response indicated the price was cost-based, stating that there is no market mechanism to compare. The Company also provided information to support the "studies cost" portion of the total price, however the information supplied was limited to this one component of the sales price, therefore was not sufficient for the Department to determine the reasonableness of the price.

The Department issued a follow-up DOC IR No. 26.B and asked the Company to provide a breakdown of the entire sale price; however, again the Company's response provided only the "studies cost" portion which accounts for approximately $22,000 for the decided price.[16] The Department contacted the Company to question the breakdown of the $100,000 balance of the total price and was informed that the amount was negotiated; in contrast, the filing states that the sales price includes costs for transmission allocation from other MISO transmission owners and other miscellaneous costs associated with the transfer (i.e., regulatory processing). The Department has not obtained sufficient support to determine whether the sales price of $121,179 is reasonable. The Department requests that, in reply comments, MP provide transparent, quantified support for the total sales price of $121,179.

Also, in evaluating the Bison 6 LGIA sale, it was unclear to the Department whether ALLETE Clean Energy, or its non-jurisdictional affiliate,[17] would bear any future capital cost responsibilities, given that Section 2.2 of the LGIA being sold states that the agreement remains in effect for "for a period of twenty-five (25) years from the Effective Date and shall be automatically renewed for each successive one-year period thereafter." Capital-related payments are discussed next.

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[15] See DOC Attachment 1 for DOC IR No. 1.
[16] See DOC Attachment 2 for DOC IR No. 26.
[17] Per ALLETE, Inc. filing with the FERC (EC17-109-000), ACE intends to transfer the Bison 6 LGIA to its newly formed subsidiary, Glen Ullin Energy Center, LLC.

*2. One-time Capital payment*

The majority of the proposed $7.7 million one-time payment to be paid by ALLETE Clean Energy for use of the 230-kV AC transmission represents an allocation of the transmission system's capital plant net book value as of December 2019. The Department raises some issues.

First, the Department observed a date-related inconsistency in the Company's development of the proposed payment amount; the executed date for the Assignment and Assumption of the Bison 6 LGIA was April 17, 2017, but the proposed one-time payment price for Bison 6 share of capital costs is based on the existing facilities' net book value as of a later date, December 2019.[18] This suggests that the ongoing depreciation expense and other capital-related costs incurred during the 2017 – 2019 timeframe are not being assigned to ALLETE Clean Energy upon the effective date of the Bison 6 LGIA transfer; rather those capital-related costs continue to be assigned to MP's ratepayers. The Company's approach does not appear consistent with the Assignment and Assumption Agreement which states, in part:

> Minnesota Power – Merchant hereby assigns to ALLETE Clean Energy all of its Interconnection Customer rights, title, interest, obligations, and liabilities under the Bison 6 LGIA for the ALLETE Clean Energy wind project ("Assignment"). As of the date of execution of this Agreement, Minnesota Power – Merchant shall have no further Interconnection Customer rights, title, interest, obligations, or liabilities or any kind whatsoever under the Bison 6 LGIA. [[19]]

The Department requests that, in reply comments, the Company explain why it would be reasonable for MP's regulated operations to continue to bear the Bison 6 LGIA interconnection customer's share of the 230-kV AC transmission system's capital costs after the April 17, 2017 execution date of the Agreement. Similarly, MP used the future date of December 2019 when determining other capital-related costs (*i.e.*, Center-Mandan line) reflected in the proposed one-time $7.7 million capital-related payment. Therefore, MP's reply comment discussion should also address this same issue as it applies to the date used when determining the amount of Center-Mandan[20] upgrade costs to charge to ACE.

In addition, the Department issued follow-up information requests to further evaluate the proposed one-time payment. MP's attachments provided in responses to DOC IR Nos. 2 and 12 show that for certain substation facilities only the transmission-related portion of their total

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[18] Initial filing, Exhibit 1 and Response to DOC Information Request No. 12.
[19] Initial filing, Exhibit 1, pp. 1-2.
[20] Also known as 'Center-Heskett.'

costs were considered in determining the one-time payment.[21] In DOC IR No. 27, part F, the Department requested MP to provide support for the transmission-related percentages applied to these particular facilities.[22] The Department notes that ACE's Clean Energy #1 generation facility will interconnect at the Tri-County substation, thus will use the generation function of the substation as well as the transmission function of the substation. Therefore, the Department requests that the Company explain why only the transmission cost component (40.26%) of the Tri-County substation cost is used to determine the one-time capital payment amount.

Given these issues, the Department has not yet determined whether the proposed $7.7 million is reasonable.

*3. Future Capital Costs of Transmission Facilities*

Since the petition describes the proposed $7.7 million payment as a one-time capital-related payment, the Department requested MP, in DOC IR No. 29, part B, to discuss the Bison 6 LGIA owner's future cost-sharing responsibilities for capital-related transmission facilities costs.[23] In its response, the Company stated:

> *Appendix A-2 of the Bison 6 LGIA states:*
>
> > *"In addition, cost responsibility for ongoing costs, including operation and maintenance costs, associated with the Transmission Provider Interconnection Facilities, will be allocated between Interconnection Customer and Third-Party User(s) on a pro-rata basis."*
>
> *All future capital cost expenditures for capitalized refurbishment or replacement undertaking of the infrastructure associated with these same transmission facilities will be allocated on a pro-rata basis during the term of the agreement and for any one year renewal periods thereafter.*

The Company's response provided its interpretation confirming that ACE will share in future capital expenditures, however, this is a multi-party contract among MP (transmission owner), ACE (interconnection customer) and MISO. Therefore, to ensure ACE agrees with the Company's interpretation, the Department recommends that supplemental information be filed in the record by ALLETE Clean Energy to confirm that, it is in full agreement that the

[21] See DOC Attachment 3 for DOC IR Nos. 2 and 12.
[22] See DOC Attachment 4 for DOC IR No. 27 and 27 supplement.
[23] See DOC Attachment 5 for DOC IR No. 29.

contract clause "responsibility for ongoing costs" includes future capital-related costs/expenditures for these same transmission facilities. Given the long-term nature of the LGIA and the sharing of infrastructure among regulated and non-regulated operations, making the interconnection customers' assignment and cost responsibility of the transmission system's future capital-replacement costs very clear is necessary to prevent future disputes and to safeguard MP's future ratepayers.

*4. Operating Costs*

Under the LGIA, the interconnection customers of the transmission owner are responsible for all reasonable expenses including overhead and operation, maintenance, repair and replacement of Transmission Provider's Interconnection Facilities.[24] ACE would pay MP its allocated portion of annual operations and maintenance costs. The Company illustrated how allocation of operations and maintenance (O&M) costs to ACE would be determined.[25] Information from MP's Schedule O (the transmission owner's revenue requirement filing with MISO) was used as the source for costs subject to this allocation.[26]

The Department reviewed MP's Schedule O and found that *Taxes Other than Income Tax* expenses were not included in the Company's development of the O&M cost rate per transmission line mile. *Taxes Other than Income Taxes* includes payroll taxes, property taxes and other plant related taxes, which totaled over $6 million in 2016 for MP's AC transmission lines. Although "Taxes Other than Income Taxes" are presented on financial statements apart from "Operations and Maintenance," it comprises ongoing costs that are associated with the transmission facilities. Including these costs would increase the illustrated O&M per-line-mile cost rate by more than 25 percent.[27] Absent a showing to the contrary, the Department concludes that MP's customers should not absorb ALLETE non-regulated operations' share of *Taxes Other than Income Taxes*. The Department recommends that *Taxes Other than Income Tax* from Schedule O be included and allocated in a likewise manner when determining the O&M per-line-mile rate used to determine the annual O&M amount to allocate to ACE.

In addition, the Department observed that the Company is inconsistent in its method to calculate the Bison 6 allocation factor that is used for cost sharing purposes. The capacity for each generator site is used as the basis for determining their pro rata share of costs. The Company used the precise capacity figure sums when calculating the factor to determine capital cost allocation, but appears to have used rounded capacity figure sums in calculating the factor to determine O&M cost allocation. The result of the inconsistent technique employed by

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[24] Initial Filing, Exhibit 2, p. 56, Article 10.5.
[25] Initial Filing, Exhibit 1.
[26] See DOC Attachment 6 for MP's Schedule O, provided in response to DOC IR No. 14.
[27] $6,030,014/$23,340,256 = 25.84%

the Company effectively reduces the cost amounts allocated to ACE. If the Company had rounded the capacity sums to determine the factors for the capital cost allocation, ACE would pay more.[28] If the Company had used the actual capacity summed amounts for O&M cost allocation factors, ACE would pay more.[29] The Department recommends that the Company use a consistent method when developing the capital and O&M allocation pro rata factors and recommends that the precise capacity sums approach be used in the pro rata factor calculation. For instance, the Bison 6 LGIA cost allocation percentage for the Tri-county-to-Bison Line would be **105.6** MW divided by **208** MW (or 50.77%), rather than **105** MW divided by **210** MW (or 50.00%) as shown in the Petition's Exhibit 1, page 7.

Moreover, as discussed earlier in Section III.C.2, the Department raised concerns about the Company's use of a date other than the execution date of the Agreement when determining capital-related cost amount to charge affiliate ACE. Likewise, the timing of when ACE as new owner of the Bison 6 LGIA assumes the Bison 6 LGIA's share of the 33-mile transmission system annual operating costs should also be made clear in this record. Absent a showing to the contrary, the Department recommends that the ACE's obligation for annual O&M costs become effective on the execution date of the Bison 6 LGIA, the date ACE is assigned all Interconnection Customer rights, title, interest, obligations and liabilities under the Bison 6 LGIA for the ACE wind project. Should the Company disagree, the Department requests that, in reply comments, the Company explain why it would be reasonable for MP's regulated operations to continue to bear the Bison 6 LGIA's share of the annual operating and maintenance costs on and after the sale of the Bison 6 LGIA to its affiliate ACE.

*5. Minn. Stat. §216B.50 and Minn. Rule 7825.1800*

Excerpts of Minn. Stat. §216B.50 and Minn. Rule 7825.1800 were included above in Sections III.A.2 and III.B.3, respectively. The Department believes the Company's request is subject to this statute and this rule.

In DOC Information Request No. 5, the Department asked the Company to consider the relevance of Minn. Stat. §216B.50 and Minn. Rules 7825.1800 to the proposed transactions.[30] With respect to the $7.7 million one-time payment, the Company stated:

> Minnesota Power asserts that Minnesota Statute § 216B.50 and Minnesota Rules 7825.1800 are not applicable to this affiliate

[28] ACE would pay approximately $30,000 more based upon MP's proposed total capital subject to allocation and applying the O&M factors used in Exhibit 1, p. 7 to capital costs shown in Exhibit 1, pp. 6 and 8.
[29] Varies by year, but would ACE's O&M allocation would be approximately $1,300 more per year when using factors from Exhibit 1, p. 6 and apply them to Exhibit 1, p. 7 proposed costs.
[30] See DOC Attachment 7 for DOC IR No. 5.

> agreement since Minnesota Power is not selling, acquiring, leasing or renting any plant as an operating unit or system.

MP's response further stated:

> Minnesota Power is not aware of any situation where these requirements have been applied to Large Generator Interconnection Agreements and corresponding use of transmission assets of Minnesota public utilities.

The Department appreciates the Company's perspective but notes that the payment transactions, the $7.7 million capital-based payment associated with transmission facilities' cost and the Bison 6 LGIA $121,179 transfer price, are not separable and together exceed the $100,000 threshold established in Minn. Stat. §216B.50.

Regarding the $7.7 million payment tied to the Bison 6 generator facility's capacity, MP made clear that its transmission assets are not being sold.[31] The Department understands that the one-time capital-based payment is for use of the 230 kV AC Transmission system for a set period, therefore is not unlike "leasing or renting" a portion of the system. Further, Minn. Rules 7825.1600, subp. 8 states: [32]

> "Transfer of property" means the sale or acquisition of an operating unit or system for a consideration valued at greater than $100,000; *or if a rental or lease, for consideration greater than $100,000 over the life of the rental or lease*. [Emphasis added.]

Consequently, the Department concludes that this transaction is subject to Section 216B.50, and Minn. Rules 7825.1800.

As for the Bison 6 LGIA sale, in ALLETE's relevant, concurrent application to the Federal Energy Regulatory Commission (FERC),[33] the Company stated:

> The only jurisdictional facility or asset associated with or affected by the Transaction is the Bison 6 LGIA. The consideration for the Transaction is $121,179… [34]

[31] *Ibid*.
[32] The scope of Minn. Rules 7825.1600 applies to Minn. Rules 7825.1800.
[33] ALLETE seeks to obtain authorization to transfer the Bison 6 LGIA to ACE pursuant to Section 203 of the Federal Power Act in FERC Docket EC17-109-000.
[34] FERC Docket EC17-109-000, Submittal Application filed on April 27, 2017, p. 20

ALLETE identifies the Bison 6 LGIA as an asset and the expenditures MP incurred to attain the Bison 6 LGIA were treated as utility operating costs, rather than non-operating costs. Therefore, the Department concludes that the transaction to transfer the Bison 6 LGIA to ACE is a sale of a utility operating system asset and consequently is subject to both Minn. Stat. §216B.50 and Minn. Rule 7825.1800.

The Department requests that in reply comments MP delineate where in the petition the filing requirements outlined in Minn. Rule 7825.1800 are satisfied, provide any outstanding filing requirements, and/or request the Commission, with justification, to vary its rule.

In further evaluating these transactions and Minn. Stat. § 216B.50 criteria, the 230-kV AC Transmission system, though physically located in North Dakota, would be considered part of MP's Minnesota operating system and therefore falls under the purview of the Commission. Noting that the language in Minn. Stat. §216B.50, subd. 1 includes the phrase "plant as an operating unit or system in this state," the Commission has previously found that Section 216B.50 applies to facilities located outside the state of Minnesota, when such facilities are used by the utility to provide service to Minnesota customers and the facilities' costs are included in customers rates approved by the Commission.

For example, in its December 14, 1998 *Order Finding Jurisdiction and Approving Property Transfer* in Docket No. E017/PA-98-1345, the Commission provided its interpretation of Minn. Stat. §216B.50, subd. 1:

> The Commission has long held that out-of-state property which is an integral part of a utility's Minnesota operating system is subject to the provisions of Minn. Stat. 216B.50, subd. 1. [footnote omitted] The statutory language contemplates this result, by referring not to discrete parcels of property but to "plant as an operating unit or system in this state." Clearly, the statutory intent was to cover utility assets integrated into a utility's overall operating system.
>
> To hold otherwise would render the statute an absurdity, since it would give the Commission no authority to protect Minnesota customers from improvident or even potentially disastrous transfers of out-of-state facilities vital to the provision of reliable service in this state. For all these reasons, the Commission continues to hold that out-of-state utility property is subject to the

> provisions of Minn. Stat. 216B.50, when it is part of a utility's Minnesota operating unit or system.

Accordingly, the Department recommends that, while the affiliate-transaction provisions of Minn. Stat. §216B.48 should be a primary consideration, the Commission also apply the provisions of Minn. Stat. §216B.50 in determining whether the proposal and agreements are reasonable and consistent with the public interest.

*6. Consideration of Other Costs Associated with the Bison 6 Project Site*

The petition focused on the transmission facilities interconnection agreement. Though related and of interest, the petition had no discussion on the underlying Bison 6 Project site associated with the Bison 6 LGIA. To determine if there were site-related costs relevant to the proposed transaction price, in DOC IR No. 33, the Department requested MP to identify all costs associated with the Bison 6 Project site that have previously been assigned or charged to ALLETE's regulated operations.[35] Because MP indicated that it has not incurred any of the Bison 6 project (a/k/a Clean Energy #1) site development costs, the Department concludes that the potential need for MP to be reimbursed for site development costs does not apply to this affiliate transaction.

*7. Use of Rider Mechanism to Reflect Transaction Benefits to Ratepayers*

If this proposed affiliate transaction is approved, the Department agrees with MP's proposal to use the Renewable Resources Rider to flow the benefits of this transaction to ratepayers until the benefit can be incorporated into a subsequent rate case. The use of the rider is appropriate, in part, because MP's pending rate case reflects the full cost of these assets in rate base, assets that are now proposed to be transferred to or used in part by its non-regulated affiliate ACE. The ratepayer benefits would be reflected as revenue requirement credits and incorporated into billing factors in MP's subsequent renewable rider filing. However, the Company's filing did not elaborate on the details of flowing benefits to ratepayers. The Department has preliminary recommendations on certain aspects as noted below and requests MP to respond in its reply comments.

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[35] DOC IR No. 33 included in DOC Attachment 9.

*a. Benefit Accrual Begin Date*

MP's Interconnection Customer rights, title, interest, obligations and liabilities under the Bison 6 LGIA are transferred to ACE at the execution date per the Agreement terms; therefore, the Department recommends that these transactions' benefits should begin to accrue to ratepayers as of the execution date.

*b. Ratemaking Details*

*1) Operations and Maintenance Annual Payment*

The Department recommends that ACE's pro rata share of the annual operations and maintenance (O&M) costs be treated as a revenue credit in MP's rider mechanism.[36] The Department recommends that the O&M credit amount should begin to accrue on the execution date of the Bison 6 LGIA, the date ACE is assigned all Interconnection Customer rights, title, interest, obligations and liabilities under the Bison 6 LGIA for the ACE wind project.

*2) Bison 6 LGIA Payment*

For the proposed $121,179 payment for the Bison 6 LGIA, the Department preliminarily recommends that the full amount be credited to ratepayers immediately upon the execution date of the Bison 6 LGIA. MP's petition identifies the components of this price consists of costs which are generally fully expensed when incurred. However, the Department will further evaluate the sales price component information requested to be provided in MP's reply comments to confirm this tentative recommendation.

*3) One-time Capital-related Payment*

The Department requested the Company to discuss how the one-time proposed $7.7 million payment would be treated for ratemaking purposes. In in DOC IR No. 9, MP proposed to treat the one-time payment as contribution in aid of construction, which will reduce rate base plant in-service and depreciation expense.[37] The Department noted that the Company's response does not detail specifics, such as the rate of return it would use to calculate the revenue requirement credit or the basis for the depreciation expense credit. The Department notes that establishing a ratemaking framework upfront will mitigate issues in subsequent filings should this transaction be approved.

[36] The annual O&M payments, based on MP Transmission Schedule O filed with MISO, do not include depreciation expense. Schedule O is provided in DOC Attachment 6.
[37] See DOC Attachment 8 for DOC IR No. 9.

As stated earlier, the full value of these transmission assets are being rolled into base rates in MP's pending rate case. The base rates being established captured the net book value of these assets as of 2017. Now, if the proposed transaction is approved, millions of dollars of rate base will shift from regulated to non-regulated operations without a corresponding change to base rates. The Department recommends that the revenue requirements attributable to the $7.7 million payment (including return on rate base and depreciation expense amounts) that are imputed in MP's new base rates be reflected at the same static annual amounts through the Renewable Resources Rider mechanism. This would mean that MP would apply the Commission-authorized overall rate of return value (decided in the rate case) to a static net book value amount; and the depreciation expense would be set to equal the depreciation amount included in base rates. The return amount and depreciation expense amount included in base rates would remain unchanged, but would be "cancelled out" by reflecting the benefits of this transaction through the Renewable Resources Rider. This recommendation is intended to effectively remove a revenue requirement amount equal to what was imputed in base rates.

## IV. CONCLUSIONS AND RECOMMENDATIONS

In conclusion, additional information is required in order for the Department to fully evaluate the reasonableness of the proposed affiliate transaction.

The Department requests that MP provide the following in reply comments:

- transparent, quantified support for the total sales price of $121,179;
- an explanation as to why it would be reasonable for MP's regulated operations to continue to bear the Bison 6 LGIA's share of the 230 kV AC transmission system's capital costs and the Center-Mandan upgrade costs after the Agreement's April 17, 2017 date of execution;
- an explanation as to why only the transmission cost component (40.26%) of the Tri-County substation cost is used to determine the one-time capital payment amount;
- delineation as to where in the petition the filing requirements outlined in Minn. Rule 7825.1800 are satisfied, provide any outstanding filing requirements, and/or request the Commission, with justification, to vary its rule;
- supplemental information (or agreements) filed in the record to commit that ALLETE Clean Energy is in full agreement, that ongoing costs include future capital expenditures undertaken to replace or refurbish existing transmission infrastructure;
- An explanation as to why it would be reasonable for MP's regulated operations to continue to bear the Bison 6 LGIA's share of the annual operating and maintenance costs associated with the 33-mile transmission system, on and after the sale of the

Bison 6 LGIA to its affiliate ACE, should the Company advocate for use of an effective date other than the Agreement's execution date.

If the Commission approves the affiliate transaction, the Department preliminarily recommends that the Commission:

- Direct that *Taxes Other than Income Tax* from Schedule O be included and used, consistent with other O&M expenses, when calculating the per-line-mile rate to use to determine the annual O&M amount to allocate to ACE;
- Direct the Company to use a consistent method when developing the capital and the O&M allocation pro rata factors; and in doing so, direct the Company to use the precise capacity sums methodology to calculate the pro rata factor;
- Find that the one-time payment related to capital costs of transmission facilities, is not unlike a lease, and is subject to Section 216B.50 and Minn. Rules 7825.1800;
- Find that the transaction to transfer the Bison 6 LGIA to ACE is subject to both the Section 216B.50 and Minn. Rule 7825.1800.
- Determine that all the benefits from this transaction should begin to accrue to ratepayers as of the Assignment and Assumption of the Bison 6 LGIA execution date;
- Determine that the ALLETE Clean Energy's pro rata share of the annual operations and maintenance costs be treated as a revenue credit in MP's Renewable Resources Rider mechanism;
- Direct that the revenue requirements attributable to the capital (plant-in-service) imputed in MP's base rates[38] but now being allocated to ACE, be reflected as an equal and static credit amount in the rider mechanism as long as the benefits of this transaction are flowed to ratepayers through the rider.

/lt

[38] Incorporated in MP's current rate case Docket No. E015/GR-16-664.

Minnesota Department of Commerce
Division of Energy Resources
Information Request

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 5/3/2017 |
| Type of Inquiry: | General | Response Due: | 5/15/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

---

**Request Number:** 1
Topic: Purchase price for Large Generator Interconnection Agreement
Reference(s): Petition, pp. 2, 4, 7, 11 and Exhibit 1, p. 1

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Request:

A. Please provide information to support that the price of $121,179 for sale of the Large Generator Interconnection Agreement for the GS-666 (Bison 6 LGIA) wind generating project is: (1) reasonable, and (2) the higher of cost or market.
B. Please provide the additional information that Minnesota Power (MP) provided to each one of the few Request-for-Proposal bidders who inquired on the available Bison 6 LGIA in 2016.

RESPONSE:

A. As stated on pages 2-3 of the Petition, a portion of the $121,179 payment is reimbursement for Minnesota Power's transmission study costs for Bison 2-6 wind facilities. DOC IR 1.1 Attachment details the costs associated with the Bison 2-6 study. The actual study costs were allocated to the Bison 6 Large Generator Interconnection Agreement based on a pro rata share of generation capacity. The remainder was to cover regulatory and other costs to Minnesota Power from entering into the assignment agreement. There is no market mechanism to compare these costs to.

B. Minnesota Power provided the following information to Request-for-Proposal bidders who inquired on the available Bison 6 Large Generator Interconnection Agreement in 2016:

The MISO-approved interconnection agreement is for a 100MW (nominal) wind generating facility connecting to Minnesota Power's Tri-County Substation. The Tri-County Substation is located in the southeast corner of Section 36 – T141N – R88W in Mercer County, North Dakota. See attached map for the location of the Tri-County Substation. If you can show that you have a project with a location that can reasonably connect to the

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To be completed by responder

Response Date: May 15, 2017
Response by: Kara Henderson/David Moeller (1.A.) and Barry Garner (1.B.)
Email Address: khenderson@mnpower.com; dmoeller@allete.com; bgartner@mnpower.com
Phone Number: 218-355-2869 (Kara); 218-723-3963 (David); 218-355-3333

Minnesota Department of Commerce
Division of Energy Resources
Information Request

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 5/3/2017 |
| Type of Inquiry: | General | Response Due: | 5/15/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

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Tri-County Substation, then Minnesota Power can provide additional details on the interconnection agreement.[1]

One bidder asked: Is it a MISO facility?

Minnesota Power responded: Yes.

One bidder asked: Does MP have a preference for a Project that utilizes the MP approved interconnection with MISO to the Tri-County Sub in southeast Mercer County, North Dakota? Or, will bids that utilize this interconnection be evaluated based upon the same factors and scoring as all other bids?

Minnesota Power responded: MP does not have a preference for a project that utilizes the approved interconnection with MISO to the Tri-County Sub in southeast Mercer County, North Dakota. Any bid utilizing this interconnection will be evaluated based upon the same factors and scoring as all other bids.

[1] The map referenced in the information provided to Request-for-Proposal bidders in included as DOC IR 1.2 Attachment.

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To be completed by responder

Response Date: May 15, 2017
Response by: Kara Henderson/David Moeller (1.A.) and Barry Garner (1.B.)
Email Address: khenderson@mnpower.com; dmoeller@allete.com; bgartner@mnpower.com
Phone Number: 218-355-2869 (Kara); 218-723-3963 (David); 218-355-3333

| | | | | | |
|---|---|---|---|---|---|
| HVDC Bison 2-6 System Impact and Facility Study | $ 104,653.18 | | | | |
| | | Bison 2 | 105 | | |
| Bison 6 Share | 20.29% | Bison 3 | 105 | | |
| | | Bison 4 | 102.4 | | |
| | | Bison 5 | 102.4 | | |
| **Portion Allocated to Bison 6 LGIA** | **$ 21,236.31** | Bison 6 | 105.6 | | |
| | | | 520.4 | Total Bison 2-6 Output | |
| | | Generating Capacity - Bison 6 | | 105.6 | mw |
| | | Generating Capacity - Bison 2-6 | | 520.4 | mw |
| | | Bison 6 Share | | 20.29% | |

03/29/2017 KMH

HVDC Bison 2-6 System Impact and Facility Study Costs

| | | | Actuals | Deposits |
|---|---|---|---|---|
| MP Work Order 1509830 | | | | |
| Deposit | From MP12/31/2008 | | | $ (50,000.00) |
| Actuals | As per SB Accounting Detail | | $ - | |
| | 2010 WO 1509830 | | $ 6,726.00 | |
| | Study Balance as of 1/31/2010 | | $ 6,726.00 | $ (50,000.00) |
| | | Mar-10 | 500 | |
| | | May-10 | 375 | |
| | | Jul-10 | 1,000 | |
| | | Nov-10 | 1,000 | |
| | | Jan-11 | 750 | |
| | | Feb-11 | 6,000 | |
| | | Mar-11 | 2,000 | |
| | | Apr-11 | 3,000 | |
| | | May-11 | 3,500 | |
| | | Jun-11 | 1,500 | |
| | | Jul-11 | 2,000 | |
| | | Aug-11 | 375 | |
| | | Sep-11 | 1,000 | |
| | | Oct-11 | 6,000 | |
| | 11-Nov Transfer ABB to Bison 2-6 | | $ 42,870.55 | |
| | | Nov-11 | 7,000 | |
| | | Aug-12 | 7,000 | |
| | | Sep-12 | 2,000 | |
| | | Nov-12 | 2,000 | |
| | | Mar-13 | 2,000 | |
| | | Jun-13 | 2,000 | |
| | | Jul-13 | 2,000 | |
| | | Oct-13 | 3,000 | |
| | | Dec-13 | 1,500 | |
| | | Jan-14 | 2,000 | |
| | | Mar-14 | 2,000 | |
| | Emp Exp | | 283 | |
| | HVDC Bison 2-6 System Impact and Facility Study | | $ 104,653.18 | |

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | |
|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public |
| Requested From: | Minnesota Power | Date of Request: 8/11/2017 |
| Type of Inquiry: | General | Response Due: 8/21/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

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**Request Number:** **26**
Topic: Purchase price for Large Generator Interconnection Agreement
Reference(s): Response to DOC IR No. 1, Attachment DOC IR 1.1

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**Request:**

A. Referring to the Company's Attachment DOC IR 1.1, please explain why the January 2010 balance for transmission study costs were not included in calculating the total *HVDC Bison 2-6 System Impact and Facility Study* cost.

B. Please provide a breakdown of the entire proposed price amount for the Large Generator Interconnection Agreement for the GS-666 (Bison 6 LGIA).

C. Please provide the Company-issued correspondence containing the offer to avail and sell the Large Generator Interconnection Agreement for the GS-666 (Bison 6 LGIA) to prospective wind developers in connection with Minnesota Power's request for proposals.

**RESPONSE:**

A. The January 2010 balance for transmission study costs were inadvertently excluded from the calculation. DOC IR 1.1 Attachment has been revised and is attached.
B. Please see the attached revised DOC IR 1.1 Attachment.
C. The offer to avail the Large Generator Interconnection Agreement for the GS-666 (Bison 6 LGIA) to prospective wind developers can be found in Section 2.6 of Minnesota Power's Request for Proposals for Wind Resource, released July 27, 2016. Please see attached DOC IR 26.1 Attachment.

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To be completed by responder

Response Date: August 21, 2017
Response by: Kara Henderson and Barry Gartner
Email Address: khenderson@mnpower.com and bgartner@mnpower.com
Phone Number: 218.355.2869 and 218.355.3333

| | | | | |
|---|---|---|---|---|
| HVDC Bison 2-6 System Impact and Facility Study | $ 111,379.18 | | | |
| | | Bison 2 | 105 | |
| Bison 6 Share | 20.29% | Bison 3 | 105 | |
| | | Bison 4 | 102.4 | |
| | | Bison 5 | 102.4 | |
| **Portion Allocated to Bison 6 LGIA** | **$ 22,601.16** | Bison 6 | 105.6 | |
| | | | 520.4 | Total Bison 2-6 Output |

| | | |
|---|---|---|
| Generating Capacity - Bison 6 | 105.6 | mw |
| Generating Capacity - Bison 2-6 | 520.4 | mw |
| Bison 6 Share | 20.29% | |

08/17/2017 KMH

HVDC Bison 2-6 System Impact and Facility Study Costs

| | | | | Actuals | Deposits |
|---|---|---|---|---|---|
| MP Work Order 1509830 | | | | | |
| Deposit | | From MP12/31/2008 | | | $ (50,000.00) |
| Actuals | As per SB Accounting Detail | | | $ - | |
| | | 2010 WO 1509830 | | $ 6,726.00 | |
| | Study Balance as of 1/31/2010 | | | $ 6,726.00 | $ (50,000.00) |
| | | | Mar-10 | 500 | |
| | | | May-10 | 375 | |
| | | | Jul-10 | 1,000 | |
| | | | Nov-10 | 1,000 | |
| | | | Jan-11 | 750 | |
| | | | Feb-11 | 6,000 | |
| | | | Mar-11 | 2,000 | |
| | | | Apr-11 | 3,000 | |
| | | | May-11 | 3,500 | |
| | | | Jun-11 | 1,500 | |
| | | | Jul-11 | 2,000 | |
| | | | Aug-11 | 375 | |
| | | | Sep-11 | 1,000 | |
| | | | Oct-11 | 6,000 | |
| | 11-Nov | Transfer ABB to Bison 2-6 | | $ 42,870.55 | |
| | | | Nov-11 | 7,000 | |
| | | | Aug-12 | 7,000 | |
| | | | Sep-12 | 2,000 | |
| | | | Nov-12 | 2,000 | |
| | | | Mar-13 | 2,000 | |
| | | | Jun-13 | 2,000 | |
| | | | Jul-13 | 2,000 | |
| | | | Oct-13 | 3,000 | |
| | | | Dec-13 | 1,500 | |
| | | | Jan-14 | 2,000 | |
| | | | Mar-14 | 2,000 | |
| | | Emp Exp | | 283 | |
| | | HVDC Bison 2-6 System Impact and Facility Study | | $ 111,379.18 | |

Minnesota Department of Commerce
Division of Energy Resources
Information Request

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 5/3/2017 |
| Type of Inquiry: | General | Response Due: | 5/15/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

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**Request Number:** 2
Topic: Use of 230 kV AC Transmission System
Reference(s): Petition, pp. 3, 7, 11 and Exhibit 1, pp. 2, 6-8

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**Request:**

A. Please fully describe the facilities and rights that make up the “Use of 230 kV AC Transmission System” encompassed within the estimated $7.7 million one-time payment.
B. Please provide all supporting information and calculations that support the $7.7 million one-time payment.

**RESPONSE:**

A. The facilities that make up the 230 kV AC Transmission System are the same as the Transmission Provider’s Interconnection Facilities as explained in Appendix A.2.b of the Large Generator Interconnection Agreement (“LGIA”).

   The $7.7 million one-time payment allows the Interconnection Customer to use the Transmission Provider Interconnection Facilities from the Point of Change of Ownership to the Point of Interconnection at the Square Butte Substation as described in Appendix A of the LGIA.

B. Please see the DOC IR 02.1.Attachment for supporting information and calculations.

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To be completed by responder

Response Date: May 15, 2017
Response by: Kara Henderson
Email Address: khenderson@mnpower.com
Phone Number: 218-355-2869

**Third Party Bison 6 Cost Allocation**

| Overall Project OCLD | Transmission Component of the Project | Existing Facilities | MP Base Case: Bison 1-3 and Bison 5 at at Bison. Bison 4 and Bison 6 at Tri-County |
|---|---|---|---|
| | | **Tri-County Substation** | |
| 5,666,706.88 | 40.26% | Tri-County 230/34.5 Bison 4 Sub: 3021 | 2,281,416.19 |
| 6,660,640.51 | 100.00% | 230kV Tri-County-Bison Line #103: 3503 | 6,660,640.51 |
| | | **Total** | **8,942,056.70** |
| 1,386,084.62 | 100.00% | Square Butte 230 kV(East) Bison 1 Addition: 3020 | 1,386,084.62 |
| 470,278.98 | 100.00% | PH 1 Group 3, Bison Sub Cap Bank | 470,278.98 |
| 3,693,044.38 | 12.06% | Bison 2 Sub | 445,381.15 |
| 4,167,337.07 | 23.80% | Bison-Substation for Bison 3 Wind | 991,826.22 |
| 5,143,457.72 | 26.72% | Bison 4 Sub | 1,374,331.90 |
| 9,173,461.59 | 100.00% | 230 kV Bison To Square Butte Line #84: 3581 | 9,173,461.59 |
| 4,176,035.14 | 61.00% | Bison 1 230/34.5 KV SUB: 3009 | 2,547,381.44 |
| | | OCLD = | **16,388,745.90** |
| | | ITPUC = | 105.6 |
| | | IC = | 602.2 |
| | | ITPUCO = [ITPUC/IC]*OCLD (Bison Sub) | 2,873,881.71 |
| | | Tri-County Substation | 8,942,056.70 |
| | | Tri-County Substation (Third Party) | 4,539,813.40 |
| | | ITPUC = | 105.6 |
| | | IC = | 208 |
| | | **Total cost to ACE of existing facilities** | **7,413,695.11** |
| | | **Total Transmission Related Cost for Third Party Interconnection** | **7,413,695.11** |

NOTE:
1. These costs only represent cost allocation for Transmission assets. No generation assets are included.
2. Costs for Tri-County based on the original cost less depreciation estimated through December 2019.
3. The cost of the Center-Mandan upgrade is not included in this estimate and will be provided in a separate estimate.
4. Assumes the following transmission capacity requirements, actual requirements will be determined by what is specified in LGIA

Bison 1: 81.8 mws
Bison 2-3: 105 mws
Bison 4: 102.4 mws interconnecting at Tricounty
Bison 5: 102.4 mws
Bison 6: 105.6 mws interconnecting at Tricounty

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: E015/AI-17-304
☐Nonpublic ☒Public
Requested From: Minnesota Power
Date of Request: 5/3/2017
Type of Inquiry: General
Response Due: 5/15/2017

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

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**Request Number:** 12
Topic: 230 kV Transmission System Facilities
Reference(s): Petition, Exhibit 1, p. 6, Attachment 1

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Request:

For each of the existing facilities listed in Attachment 1 titled “Third Party Bison 6 Cost Allocation”, provide the facilities’ in-service date and identify the rate mechanism currently used to recover the component facility cost along with the docket number. Provide workpapers that show the component assets’ current value, the calculation of the expected facility “MP Base” cost and disclose the assets’ remaining depreciable years for rate purposes.

RESPONSE:

Please see the attached file DOC IR 12.1 Attachment for the information requested above.

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To be completed by responder

Response Date: May 15, 2017
Response by: Kara Henderson
Email Address: khenderson@mnpower.com
Phone Number: 218-355-2869

| Project # | Project Description | In Service Date | Docket No. Prior to Rate Case | Rate Case Docket No. | Est. OIC thru Dec 2019 1) | Est. Accum. Depr. Thru Dec. 2019 2) | Est. Net Book Value at Dec. 2019 | Percentage Transmission | Est. MP Base Case Amounts at Dec. 2019 per Attachment 1 | Est. Avg. Remaining Depreciable Years at 12/31/19 Based on Current Depreciation Rates 2) |
|---|---|---|---|---|---|---|---|---|---|---|
| 106805 | Tri-County 230/34.5 Bison 4 Sub: 3021 | 6/25/2014 | 13-907 | 16-664 | 6,619,983.00 | 953,276.12 | 5,666,706.88 | 40.26% | 2,281,416.19 | 31 |
| 105476 | 230 kV Tri-County-Bison Line #103: 3503 | 6/25/2014 | 13-907 | 16-664 | 7,740,714.73 | 1,080,074.22 | 6,660,640.51 | 100.00% | 6,660,640.51 | 38 |
| Subtotal | | | | | 14,360,697.73 | 2,033,350.34 | 12,327,347.39 | | 8,942,056.70 | |
| | | | | | | | | | | |
| 104431 | Square Butte 230 kV (East) Bison 1 Addition: 3020 | 9/23/2010 | 09-285 | 16-664 | 1,859,565.00 | 473,480.38 | 1,386,084.62 | 100.00% | 1,386,084.62 | 27 |
| 105422 | PH 1 Group 3, Bison Sub Cap Bank | 11/15/2012 | 09-285 | 16-664 | 577,984.00 | 107,705.02 | 470,278.98 | 100.00% | 470,278.98 | 29 |
| 105111 | Bison 2 Sub | 7/27/2012 | 11-234 | 16-664 | 4,673,543.00 | 980,498.62 | 3,693,044.38 | 12.06% | 445,381.15 | 29 |
| 105440 | Bison-Substation for Bison 3 Wind | 8/1/2012 | 11-626 | 16-664 | 5,217,580.00 | 1,050,242.93 | 4,167,337.07 | 23.80% | 991,826.22 | 29 |
| 106799 | Bison 4 Sub | 6/24/2014 | 13-907 | 16-664 | 6,007,328.00 | 863,870.28 | 5,143,457.72 | 26.72% | 1,374,331.90 | 31 |
| 104429 | 230 kV Bison To Square Butte Line #84: 3581 | 9/23/2010 | 09-285 | 16-664 | 11,567,318.00 | 2,393,856.41 | 9,173,461.59 | 100.00% | 9,173,461.59 | 23 |
| 104430 | Bison 1 230/34.5 KV SUB: 3009 | 9/23/2010 | 09-285 | 16-664 | 5,602,069.00 | 1,426,033.86 | 4,176,035.14 | 61.00% | 2,547,381.44 | 27 |
| Subtotal | | | | | 35,505,387.00 | 7,295,687.50 | 28,209,699.50 | | 16,388,745.90 | |
| Grand Total | | | | | 49,866,084.73 | 9,329,037.84 | 40,537,046.89 | | 25,330,802.60 | |

**1)** Assumed no additional spend for any projects past 2016

**2)** Estimated depreciation expense assuming no change to depreciation rates. Depreciation rates will likely change in 2018 when Minnesota Power files its five-year Transmission and Distribution Depreciation Petition.

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | |
|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public |
| Requested From: | Minnesota Power | Date of Request: 8/11/2017 |
| Type of Inquiry: | General | Response Due: 8/21/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

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**Request Number:** **27**
Topic: 230 kV AC Transmission System infrastructure and capital cost
Reference(s): Response to DOC IR Nos. 2 and 12, Attachments DOC IR 2.1 and 12.1

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**Request:**

A. Please provide a copy of the transmission cost study that can validate that all of MP's transmission facilities necessary for the Bison 6 generator interconnection are encompassed in DOC IR 2.1 and 12.1 Attachments and include document citations for these facilities;

B. For each existing project facility listed, please provide support for the "Overall Project OCLD" amount, prior to applying transmission component factor;

C. Please state whether the OCLD amounts includes internal capitalized costs;

D. For each existing project facility listed, please provide the depreciation factor/rate applied;

E. Please provide a revised DOC IR 12.1 Attachment calculating the estimated original investment cost, accumulated depreciation and net book value of the listed facilities at April 2017.

F. For each of the listed existing facilities having a transmission component factor that is not 100%, please provide a narrative explanation of why that facility's factor is not 100% and provide the support and calculations for the percentage used;

G. Please explain why costs for the following transmission interconnection facilities (identified in Appendix A 2.b of the Large Generator Interconnection Agreement) are not included when determining the proposed one-time $7.7 million payment to Minnesota Power: SCADA equipment, metering and telemetry equipment required by the ALLETE Clean Energy #1 generating facility;

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To be completed by responder

Response Date: August 22, 2017
Response by: Kara Henderson
Email Address: khenderson@mnpower.com
Phone Number: 218.355.2869

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 8/11/2017 |
| Type of Inquiry: | General | Response Due: | 8/21/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

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H. Please identify all other 1) modification costs, 2) MP transmission interconnection facilities and 3) Bison 1-6 Projects' transmission services, that are necessary for or will be utilized by the Bison 6 generator facility (*i.e.*, Clean Energy #1) that are not included in these attachments and explain why they are not included.

**RESPONSE:**

A. The attached System Impact Study (Attachment A.1) and Addendum (Attachment A.2) show the network transmission facilities necessary for the Bison interconnections. The required upgrade of Center-Heskett 230kV is identified in section 5.2.3 of the report. At the time of the study in 2009 there was an existing Special Protection Scheme (SPS) in place to mitigate the overload condition caused by the Bison Wind interconnections. MPC later decided to retire the SPS which resulted in Minnesota Power participating in an upgrade of the line. Based on work summarized in the Addendum no additional facilities identified in the studies required mitigation.

B. Please refer to column B of Attachment DOC IR 2.1.

**SUPPLEMENTAL RESPONSE (08/30/2017)**

**Supp B. Please see Attachment B.1.**

C. Yes, the OCLD amounts includes internal capitalized costs.

---

To be completed by responder

Response Date: August 22, 2017
Response by: Kara Henderson
Email Address: khenderson@mnpower.com
Phone Number: 218.355.2869

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

Docket Number: E015/AI-17-304 ☐Nonpublic ☒Public
Requested From: Minnesota Power Date of Request: 8/11/2017
Type of Inquiry: General Response Due: 8/21/2017

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

D.

| **Project #** | | **Depr Rate** | |
|---|---|---|---|
| 105422 | PH 1 Group 3, Bison Sub Cap Bank | 2.76% | 2013-2019 |
| | | 2.68% | 2012 |
| 105476 | 230kV Tri-County-Bison Line #103 | 2.50% | |
| 106799 | Bison 4 Sub | 2.60% | |
| 106805 | Tri-County 230/34.5 Bison 4 Sub | 2.60% | |
| 104429 | 230 kV Bison To Square Butte Line #84 | 2.50% | 2013-2019 |
| | | 2.41% | 2010-2012 |
| 104430 | Bison 1 230/34.5 KV Sub | 2.76% | 2013-2019 |
| | | 2.68% | 2011-2012 |
| | | 2.69% | 2010 |
| 105111 | Bison 2 Sub | 2.76% | 2013-2019 |
| | | 2.68% | 2012 |
| 104431 | Square Butte 230 kV (East) Bison 1 Addition | 2.76% | 2013-2019 |
| | | 2.68% | 2011-2012 |
| | | 2.69% | 2010 |
| 105440 | Bison-Substation for for Bison 3 Wind | 2.76% | 2013-2019 |
| | | 2.68% | 2012 |

E. Please see the attached spreadsheet (Attachment E.1).

**SUPPLEMENTAL RESPONSE (08/30/2017)**

**Supp E.** **Please see Attachment E.1 Supp.**

To be completed by responder

Response Date: August 22, 2017
Response by: Kara Henderson
Email Address: khenderson@mnpower.com
Phone Number: 218.355.2869

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 8/11/2017 |
| Type of Inquiry: | General | Response Due: | 8/21/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

---

F. Minnesota Power classifies assets to comply with the FERC Seven-Factor Test and in accordance with the Petition of Minnesota Power for Approval of Asset Separation and Accounting Methodology in Docket No. E-015/M-01-1416 (Order dated August 8, 2002). Only the assets that satisfy the FERC Seven-Factor Test and classified as transmission assets.

**SUPPLEMENTAL RESPONSE (08/30/2017)**

**Supp F. The reason some projects have a transmission component factor that is not 100% is because these projects consist of both generation and transmission facilities. The Interconnection Customer will only benefit from the transmission facilities which is why the allocation is based solely off the transmission component. Please see Attachment F.1.**

G. The $7.7 million dollar payment is for existing facilities. SCADA equipment, metering and telemetry equipment required for the Generating Facility has not yet been installed and wouldn't be included in the estimate.

H. All existing facility costs have been included in these attachments.

---

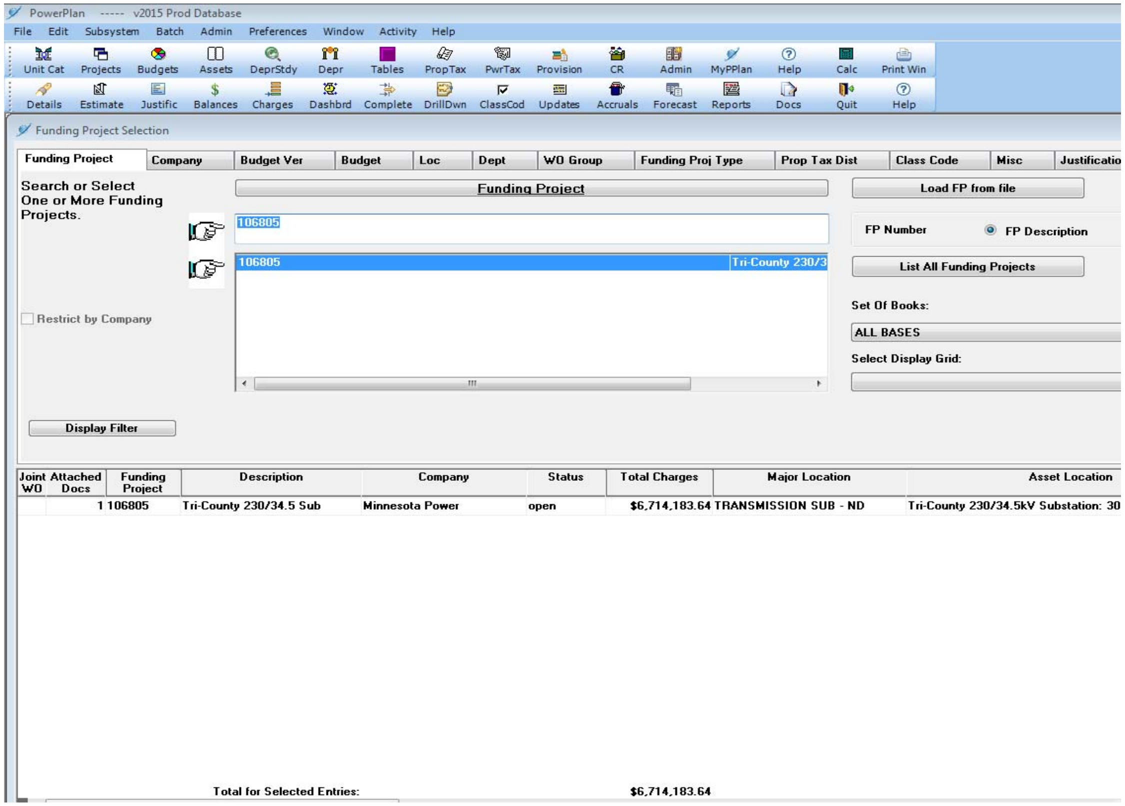
To be completed by responder

Response Date: August 22, 2017
Response by: Kara Henderson
Email Address: khenderson@mnpower.com
Phone Number: 218.355.2869

**Project 106805**

| | | | |
|---|---|---|---|
| Project Costs Below | 6,714,183.64 | | |
| Contra AFUDC Below | (94,200.93) | | |
| Total Project Costs | 6,619,982.71 | Rounded to | 6,619,983.00 |

Project Costs




| Bus Seg | Amount | % of Total |
|---|---|---|
| 100-Generation | 4,011,053.31 | 59.74% |
| 250-Transmission | 2,703,130.33 | 40.26% |
| Total | 6,714,183.64 | 100.00% |

Contra AFUDC

| Project Description | Project # | Adjust. for 2011 AFUDC CapX 2020 Projects | 2012 Contra AFUDC in Acct 25400 Subaccts 3001, 3002, 3003, & 3004 | 2013 Contra AFUDC in Acct 25400 Subaccts 3001, 3002, 3003, & 3004 | 2014 Contra AFUDC in Acct 25400 Subaccts 3001, 3002, 3003, & 3004 | 2015 Contra AFUDC in Acct 25400 Subaccts 3001, 3002, 3003, & 3004 | 2016 Contra AFUDC in Acct 25400 Subaccts 3001, 3002, 3003, & 3004 | April 2017 Year-to-date Contra Jan | Feb | Mar | Apr | April 2017 Year-To-Date | April 2017 To-Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| DC Line Upgrade | 105422 | | 10,213.68 | - | - | - | - | | | | | - | 10,213.68 |
| Bison 2 | 105111 | | 109,951.41 | - | (21,809.83) | - | - | | | | | - | 88,141.58 |
| Bison 3 | 105440 | | 114,300.28 | - | - | - | - | | | | | - | 114,300.28 |
| Bison 4 | 105476 | | | | 148,355.31 | - | - | | | | | - | 148,355.31 |
| Bison 4 | 106799 | | | | 84,248.18 | - | - | | | | | - | 84,248.18 |
| Bison 4 | 106805 | | | | 94,200.93 | - | - | | | | | - | 94,200.93 |

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 8/11/2017 |
| Type of Inquiry: | General | Response Due: | 8/21/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

---

**Request Number:** **29**
Topic: One-time payment for Use of 230 kV AC Transmission System
Reference(s): Response to DOC IR No. 4

---

**Request:**

A. Please confirm that the duration of use for the transmission interconnection facilities associated with the proposed Bison 6 LGIA one-time payment of $7.7 million expires in July 2036, 25 years after the July 22, 2011 Effective Date of the Bison 6 LGIA.

B. Given that the proposed one-time payment of $7.7 million is primarily for pro rata share of capital costs assigned to the interconnection customer, please discuss the Bison 6 LGIA owner's cost responsibility for Minnesota Power's future capital cost expenditures for capitalized-refurbishment or -replacement undertaking of the infrastructure associated with these same transmission facilities that occurs:

1. During the remaining 25 years of the Bison 6 LGIA, assuming no increased transmission capacity is to be interconnected;

2. During the automatic renewal one-year periods (and thereafter) of the Bison 6 LGIA, assuming no increased transmission capacity is to be interconnected.

**RESPONSE:**

A. That is correct since the Bison 6 LGIA defines **Effective Date** which "shall mean the date on which the Large Generator Interconnection Agreement becomes effective upon execution by the Parties." However, the Bison 6 LGIA also defines **Term of Agreement** which shall mean "Subject to the provisions of Article 2.3, this LGIA shall remain in effect for a period of twenty-

---

To be completed by responder

Response Date: August 21, 2017
Response by: Kara Henderson
Email Address: khenderson@mnpower.com
Phone Number: 218.355.2869

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 8/11/2017 |
| Type of Inquiry: | General | Response Due: | 8/21/2017 |

| | |
|---|---|
| Requested by: | Dorothy Morrissey |
| Email Address(es): | dorothy.morrissey@state.mn.us |
| Phone Number(s): | 651-539-1797 |

---

five (25) years from the Effective Date and shall be automatically renewed for each successive one-year period thereafter. This means the agreement may be renewed after July 2036."

B. Appendix A-2 of the Bison 6 LGIA states:

> "In addition, cost responsibility for ongoing costs, including operation and maintenance costs, associated with the Transmission Provider Interconnection Facilities, will be allocated between Interconnection Customer and Third-Party User(s) on a pro-rata basis."

All future capital cost expenditures for capitalized refurbishment or replacement undertaking of the infrastructure associated with these same transmission facilities will be allocated on a pro-rata basis during the term of the agreement and for any one year renewal periods thereafter.

---

To be completed by responder

| | |
|---|---|
| Response Date: | August 21, 2017 |
| Response by: | Kara Henderson |
| Email Address: | khenderson@mnpower.com |
| Phone Number: | 218.355.2869 |

Minnesota Department of Commerce
Division of Energy Resources
Information Request

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 5/3/2017 |
| Type of Inquiry: | General | Response Due: | 5/15/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

---

**Request Number:** **14**
Topic: 230 kV Transmission System Facilities
Reference(s): Petition, Exhibit 1, p. 7, Attachment 1

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**Request:**
Please provide a copy of Attachment O referenced within the Notes section of Exhibit 1, page 7.

**RESPONSE:**

The requested Attachment O is provided in DOC IR 14.1 Attachment.

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To be completed by responder

Response Date: May 15, 2017
Response by: Kara Henderson
Email Address: khenderson@mnpower.com
Phone Number: 218-355-2869

PARTIAL Page of Schedule O

Formula Rate - Non-Levelized

Rate Formula Template
Utilizing FERC Form 1 Data

For

**Allete, Inc. dba Minnesota Power**

| Line No. | (1) | (2) Form No. 1 Page, Line, Col. | (3) Company Total | (4) Allocator | | (5) Transmission (Col 3 times Col 4) | (6) AC Allocator | (7) AC System (Col 5 times Col 6) |
|---|---|---|---|---|---|---|---|---|
| | O&M (Note AH) | | | | | | | |
| 1 | Transmission | 321.112.b (Note Y) | 82,876,949 | TE | 0.80074 | 66,362,927 | DA | 47,222,321 |
| 1a | Less LSE Expenses included in Transmission O&M Accounts (Notes V and Y) | | 1,594,552 | | 1.00000 | 1,594,552 | DA | 1,594,552 |
| 2 | Less Account 565 | 321.96.b (Note Y) | 62,006,120 | TE | 0.80074 | 49,650,809 | DA | 30,972,809 |
| 3 | A&G | 323.197.b | 64,637,158 | W/S | 0.15025 | 9,711,878 | GrPlt AC | 7,557,857 |
| 4 | Less FERC Annual Fees | | 1,224,761 | W/S | 0.15025 | 184,023 | GrPlt AC | 143,208 |
| 5 | Less EPRI & Reg. Comm. Exp. & Non-safety Ad. (Note I) | | 1,533,862 | W/S | 0.15025 | 230,466 | GrPlt AC | 179,351 |
| 5a | Plus Transmission Related Reg. Comm. Exp. (Notes I and Y) | | - | TE | 0.80074 | - | DA | - |
| 6 | Common | 356.1 (Note Y) | - | CE | 0.15025 | - | DA | - |
| 7 | Transmission Lease Payments (Note Y, Note AI) | | 1,449,998 | | 1.00000 | 1,449,998 | DA | 1,449,998 |
| 8 | TOTAL O&M (sum lines 1, 3, 5a, 6, 7 less lines 1a, 2, 4, 5) | | 82,604,810 | | | 25,864,952 | | 23,340,256 |
| | DEPRECIATION AND AMORTIZATION EXPENSE (Note AG) | | | | | | | |
| 9 | Transmission | 336.7.b (Note Y and Z) | 18,571,148 | TP | 0.8684 | 16,126,565 | DA | 12,636,607 |
| 9a | Pre-Funded AFUDC Amortization | (Note AD) | (388,176) | | 1.0000 | (388,176) | DA | (388,176) |
| 9b | Abandoned Plant Amortization | (Note AD) | - | | 1.0000 | - | DA | - |
| 9c | Pre-Funded AFUDC Amortization for GN | (Note AD) | | | 1.0000 | - | DA | - |
| 9d | Abandoned Plant Amortization for GNTL | (Note AD) | | | 1.0000 | - | DA | - |
| 10 | General & Intangible | 336.10.f & 336.1.f (Note Z) | 14,474,725 | W/S | 0.15025 | 2,174,860 | GrPlt AC | 1,692,492 |
| 11 | Common | 336.11.b | - | CE | 0.15025 | - | GrPlt AC | - |
| 12 | TOTAL DEPRECIATION (Sum lines 9 - 11) | | 32,657,697 | | | 17,913,249 | | 13,940,924 |
| | TAXES OTHER THAN INCOME TAXES (Note J) | | | | | | | |
| | LABOR RELATED | | | | | | | |
| 13 | Payroll | 263.i | 6,546,767 | W/S | 0.15025 | 983,666 | GrPlt AC | 765,497 |
| 14 | Highway and vehicle | 263.i | - | W/S | 0.15025 | - | | |
| 15 | PLANT RELATED | | | | | | | |
| 16 | Property | 263.i (Note Y) | 39,712,000 | GP | 0.15174 | 6,025,895 | DA | 5,080,895 |
| 17 | Gross Receipts | 263.i | - | NA | zero | - | | |
| 18 | Other | 263.i | 1,555,000 | GP | 0.15174 | 235,956 | GrPlt AC | 183,622 |
| 19 | Payments in lieu of taxes | | - | GP | 0.15174 | - | GrPlt AC | - |
| 20 | TOTAL OTHER TAXES (sum lines 13 - 19) | | 47,813,767 | | | 7,245,517 | | 6,030,014 |
| | INCOME TAXES | (Note K) | | | | | | |
| 21 | T=1 - {[(1 - SIT) * (1 - FIT)] / (1 - SIT * FIT * p)} = | | 41.37% | | | | | |
| 22 | CIT=(T/1-T) * (1-(WCLTD/R)) = | | 54.97% | | | | | |
| | where WCLTD=(page 5 , line 11) and R= (page 5, line 14) | | | | | | | |
| | and FIT, SIT & p are as given in footnote K. | | | | | | | |
| 23 | 1 / (1 - T) = (from line 21) | | 1.7056 | | | | | |
| 24 | Amortized Investment Tax Credit (266.8f) (enter negative) | | (696,512) | | | | | |
| 25 | Income Tax Calculation = line 22 * line 28 | | 114,426,089 | NA | | 19,092,940 | | 15,649,149 |
| 26 | ITC adjustment (line 23 * line 24) | (Note Y) | (1,187,979) | NP | 0.15676 | (186,226) | DA | (186,226) |
| 27 | Total Income Taxes | (line 25 plus line 26) | 113,238,110 | | | 18,906,714 | | 15,462,922 |
| 28 | RETURN | | 208,150,047 | NA | | 34,731,558 | | 28,467,031 |
| | [ Rate Base (page 2, line 30) * Rate of Return (page 5, line 14)] | | | | | | | |
| 29 | REV. REQUIREMENT (sum lines 8, 12, 20, 27, 28) | | 484,464,431 | | | 104,661,989 | | 87,241,147 |

Minnesota Department of Commerce
Division of Energy Resources
Information Request

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 5/3/2017 |
| Type of Inquiry: | General | Response Due: | 5/15/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

---

**Request Number:** 5
Topic: One-time payment for Use of 230 kV AC Transmission System
Reference(s): Petition, pp. 3, 7, 11 and Exhibit 1, p. 2

---

Request:

A. Please indicate if the one-time payment price of $7.7 million is a sale of the 230 kV AC Transmission system to ALLETE Clean Energy to become a part owner. Please explain and support your response.
B. Please review the Commission's December 14, 1998 Order Finding Jurisdiction and Approving Property Transfer in Docket No. E017/PA-98-1345 and provide the Company's position on the application of Minnesota Statute § 216B.50 and Minnesota Rules 7825.1800 to the proposed affiliate transactions.

RESPONSE:

A. Minnesota Power is not selling its 230 kV AC Transmission system to ALLETE Clean Energy.

B. Minnesota Power asserts that Minnesota Statute § 216B.50 and Minnesota Rules 7825.1800 are not applicable to this affiliate agreement since Minnesota Power is not selling, acquiring, leasing or renting any plant as an operating unit or system. Minnesota Power is not aware of any situation where these requirements have been applied to Large Generator Interconnection Agreements and corresponding use of transmission assets of Minnesota public utilities.

---

To be completed by responder

Response Date: May 15, 2017
Response by: David Moeller
Email Address: dmoeller@allete.com
Phone Number: 218-723-3963

Minnesota Department of Commerce
Division of Energy Resources
Information Request

| | | |
|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public |
| Requested From: | Minnesota Power | Date of Request: 5/3/2017 |
| Type of Inquiry: | General | Response Due: 5/15/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

---

**Request Number:** 9
Topic: One-time payment for Use of 230 kV AC Transmission System
Reference(s): Footnote 1

---

Request:

A. Please indicate if Minnesota Power's receipt this one-time payment will be proposed to be treated as a reduction to rate base for Minnesota-jurisdictional ratemaking, thereby incorporating the changes to depreciation, taxes and return on rate base into revenue requirements.
B. Explain how MP plans to treat this one-time payment for ratemaking purposes and why it is reasonable.

RESPONSE:

A. It is proposed that the one-time payment would be treated as contribution in aid of construction ("CIAC"). Treating it as CIAC will reduce rate base plant in-service and depreciation expense.

B. Upon receipt of the one-time payment, the Company will begin calculating a monthly pre-tax revenue requirement credit to reflect the reduction to plant in-service and depreciation expense. The amount will be credited to the Renewable Resources Rider ("RRR") tracker balance and incorporated into billing factors in the subsequent Renewable Resources Rider Factor Filing. The Company will continue to flow the credit back to customers until the appropriate adjustments can be incorporated into base rates in a subsequent rate case. Treating the one-time payment as CIAC is reasonable as this conforms to FERC (Federal Energy Regulatory Commission) accounting. Flowing the revenue requirement credit back to customers through the RRR is a reasonable method to ensure customers receive the benefit of the payment as soon as possible and until it can be incorporated in a subsequent rate case.

---

To be completed by responder

Response Date: May 15, 2017
Response by: Debbra Davey (9.A.) and Stewart Shimmin (9.B.)
Email Address: ddavey@allete.com; sshimmin@mnpower.com
Phone Number: 218-355-3714; 218-355-3562

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 8/16/2017 |
| Type of Inquiry: | General | Response Due: | 8/28/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

---

**Request Number:** **33**
Topic: Bison 6 site development
Reference(s): n/a

---

**Request:**

Please list and quantify all costs, direct and indirect, other than LGIA related costs, associated with or allocated to the Bison 6 Wind Generation Project site that have previously been assigned or charged to ALLETE's regulated operations prior to the Assumption and Assignment of Bison 6 LGIA to ALLETE Clean Energy. The response is not limited to, but should at a minimum:

a) identify and discuss any and all Bison 6 project site improvements that exist or are in progress, including their costs;

b) identify and discuss any and all land-use or –rights associated with the Bison 6 project site and the costs incurred to obtain them;

c) identify and quantify any and all other Bison 6 project site tangible and intangible costs;

d) identify and quantify any and all Bison 1 – 6 Projects', or combination thereof, shared cost expenditures of which a portion was allocated to Bison 6 site and/or from which the Bison 6 development site also benefited, including regulatory expenditures.

---

To be completed by responder

Response Date: August 22, 2017
Response by: Barry Gartner
Email Address: bgartner@mnpower.com
Phone Number: 218.355.3333

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 8/16/2017 |
| Type of Inquiry: | General | Response Due: | 8/28/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

**RESPONSE:**

a) Minnesota Power has made no site improvements nor incurred any cost for site improvements to ALLETE Clean Energy's Clean Energy #1 project site.

The Clean Energy #1 project site is separate from Minnesota Power's Bison 1, 2, 3, and 4 project sites. See attached site maps (Attachments 33.1 and 33.2) from the Bison 4 site permit application (ref. NDPSC Case No. PU-13-127) and the Clean Energy #1 site permit application (ref. NDPSC Case No. PU-11-662). The Clean Energy #1 project borders the Minnesota Power's Bison 4 project for only a short distance at the Tri-County Substation.

In order to make site improvements, a site permit from the North Dakota Public Service Commission (NDPSC) is required. The site permit requires that a preconstruction conference be held prior to the commencement of any construction. Although the NDPSC issued the site permit to ALLETE Clean Energy for the Clean Energy #1 project on August 29, 2012, the preconstruction meeting for the Clean Energy #1 project was not held until November 16, 2015 (ref. Notes from Preconstruction Conference, dated November 17, 2015, NDPSC Case No. PU-110-662). This was long after Minnesota Power's Bison 1, 2, and 3 projects were operational and shortly before Bison 4 became operational. None of the site improvement costs for the Clean Energy #1 project have been charged to Minnesota Power.

b) None of the wind option or easement costs for the Clean Energy #1 project have been charged to Minnesota Power.

c) There are no other project site costs associated with the Clean Energy #1 project that have been charged to Minnesota Power.

To be completed by responder

Response Date: August 22, 2017
Response by: Barry Gartner
Email Address: bgartner@mnpower.com
Phone Number: 218.355.3333

**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | | |
|---|---|---|---|
| Docket Number: | E015/AI-17-304 | ☐Nonpublic ☒Public | |
| Requested From: | Minnesota Power | Date of Request: | 8/16/2017 |
| Type of Inquiry: | General | Response Due: | 8/28/2017 |

Requested by: Dorothy Morrissey
Email Address(es): dorothy.morrissey@state.mn.us
Phone Number(s): 651-539-1797

---

d) ALLETE Clean Energy designed, developed, and permitted the Clean Energy #1 project separate from Minnesota Power. None of the costs for wind data gathering, project design, land rights, permitting, or construction of the Clean Energy #1 project have been charged to Minnesota Power.

---

To be completed by responder

Response Date: August 22, 2017
Response by: Barry Gartner
Email Address: bgartner@mnpower.com
Phone Number: 218.355.3333

# CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. E017/AI-17-304

Dated this 12th day of September 2017

/s/Sharon Ferguson

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|---|---|---|---|---|---|---|---|
| Christopher | Anderson | canderson@allete.com | Minnesota Power | 30 W Superior St<br><br>Duluth,<br>MN<br>558022191 | Electronic Service | Yes | OFF_SL_17-304_AI-17-304 |
| Julia | Anderson | Julia.Anderson@ag.state.mn.us | Office of the Attorney General-DOC | 1800 BRM Tower<br>445 Minnesota St<br>St. Paul,<br>MN<br>551012134 | Electronic Service | Yes | OFF_SL_17-304_AI-17-304 |
| Ian | Dobson | Residential.Utilities@ag.state.mn.us | Office of the Attorney General-RUD | 1400 BRM Tower<br>445 Minnesota St<br>St. Paul,<br>MN<br>551012130 | Electronic Service | Yes | OFF_SL_17-304_AI-17-304 |
| Sharon | Ferguson | sharon.ferguson@state.mn.us | Department of Commerce | 85 7th Place E Ste 280<br><br>Saint Paul,<br>MN<br>551012198 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Kimberly | Hellwig | kimberly.hellwig@stoel.com | Stoel Rives LLP | 33 South Sixth Street<br>Suite 4200<br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Lori | Hoyum | lhoyum@mnpower.com | Minnesota Power | 30 West Superior Street<br><br>Duluth,<br>MN<br>55802 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Michael | Krikava | mkrikava@briggs.com | Briggs And Morgan, P.A. | 2200 IDS Center<br>80 S 8th St<br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Nathan N | LaCoursiere | nlacoursiere@duluthmn.gov | City of Duluth | 411 W 1st St Rm 410<br><br>Duluth,<br>MN<br>55802 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| James D. | Larson | james.larson@avantenergy.com | Avant Energy Services | 220 S 6th St Ste 1300<br><br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Douglas | Larson | dlarson@dakotaelectric.com | Dakota Electric Association | 4300 220th St W<br><br>Farmington,<br>MN<br>55024 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|---|---|---|---|---|---|---|---|
| Susan | Ludwig | sludwig@mnpower.com | Minnesota Power | 30 West Superior Street<br><br>Duluth,<br>MN<br>55802 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Pam | Marshall | pam@energycents.org | Energy CENTS Coalition | 823 7th St E<br><br>St. Paul,<br>MN<br>55106 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Herbert | Minke | hminke@allete.com | Minnesota Power | 30 W Superior St<br><br>Duluth,<br>MN<br>55802 | Electronic Service | Yes | OFF_SL_17-304_AI-17-304 |
| David | Moeller | dmoeller@allete.com | Minnesota Power | 30 W Superior St<br><br>Duluth,<br>MN<br>558022093 | Electronic Service | Yes | OFF_SL_17-304_AI-17-304 |
| Andrew | Moratzka | andrew.moratzka@stoel.com | Stoel Rives LLP | 33 South Sixth St Ste 4200<br><br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Jennifer | Peterson | jjpeterson@mnpower.com | Minnesota Power | 30 West Superior Street<br><br>Duluth,<br>MN<br>55802 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Susan | Romans | sromans@allete.com | Minnesota Power | 30 West Superior Street<br>Legal Dept<br>Duulth,<br>MN<br>55802 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Thomas | Scharff | thomas.scharff@versoco.com | Verso Corp | 600 High Street<br><br>Wisconsin Rapids,<br>WI<br>54495 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Eric | Swanson | eswanson@winthrop.com | Winthrop & Weinstine | 225 S 6th St Ste 3500<br>Capella Tower<br>Minneapolis,<br>MN<br>554024629 | Electronic Service | No | OFF_SL_17-304_AI-17-304 |
| Daniel P | Wolf | dan.wolf@state.mn.us | Public Utilities Commission | 121 7th Place East<br>Suite 350<br>St. Paul,<br>MN<br>551012147 | Electronic Service | Yes | OFF_SL_17-304_AI-17-304 |