COMMERCE DEPARTMENT

November 1, 2017

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

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

Dear Mr. Wolf:

Attached are the response 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 Minnesota Public Utilities Commission (Commission) **approve Minnesota Power's transfer of the Bison 6 Large Generator Interconnection Agreement GS-666 to affiliate ALLETE Clean Energy with modifications**. 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/ja
Attachments

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

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

Docket No. E015/AI-17-304

I. BACKGROUND

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).[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]

This transaction consists of the following payments from ACE to MP:

- $121,179 sale price for the Bison 6 LGIA;
- a one-time payment for the Bison 6 LGIA's pro rata share of MP's capital costs in the existing 230-kV AC transmission facilities ($7.7 million); and
- annual payments for the Bison 6 LGIA's pro rata share of the ongoing operations and maintenance (O&M) costs of the transmission facilities ($98,892).[3]

MP stated that the benefits from these proposed transaction payments would be passed onto ratepayers through MP's Renewable Resources Rider.

The Department filed its initial comments on September 12, 2017, which requested additional information from the Company and included some preliminary recommendations.

MP filed reply comments on October 6, 2017.

The Department provides its responses to MP's reply comments and recommendations below.

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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] Section 9.9.2 of the Bison 6 LGIA, and in accordance with its Appendix A-2.

II. DEPARTMENT ANALYSIS OF MP'S ADDITIONAL INFORMATION

A. BISON 6 LGIA SALES PRICE OF $121,179

MP's reply stated that approximately $22,000 of the sales price is reimbursement for Bison 6 LGIA's pro rata share of actual study costs incurred for the Bison 2-6 System Impact and Facility Study and the remaining balance, or approximately $100,000, is to cover MP's estimate of regulatory costs attributable to this affiliate assignment agreement. MP stated that there is no market mechanism to which to compare these costs.

The Department notes that MP's reply affirmed their response to DOC Information Request No. 1 in which MP was asked to support that the sales price was (1) reasonable, and (2) the higher of cost or market. The Department does not dispute MP's response that there is no market mechanism, but wants assurance that MP's ratepayers will be fully reimbursed for all costs related to this transaction, thus upholding the higher-of-cost-or-market principle applicable to transactions between a regulated utility and its affiliates.

Therefore, the Department recommends that the Commission approve the proposed $121,179 sales price as the minimum credit to ratepayers, but require MP to credit to ratepayers any additional amount to the extent that the accumulated costs/fees related to this transaction exceed this stated sale price. The Department recommends that MP be required to report in the renewable rider petition, in which the benefits of this sale are determined to begin, an accounting of all legal, state and federal regulatory costs, as well as other costs that were incurred related to this matter.

B. EFFECTIVE DATE USED TO DETERMINE WHEN, AND THE VALUE OF, BENEFITS ACCRUED TO MP'S REGULATED OPERATIONS FROM THE SALE OF THE BISON 6 LGIA

The execution date of the Bison 6 LGIA sale was April 17, 2017. However, the Company proposed to use the date when ACE's wind farm is expected to become operational (December 2019) to determine the Bison 6 LGIA pro rata amount of the one-time capital payment it would remit to MP. The Company used this same future date as to when ACE would be assessed annual O&M costs associated with the Bison 6 LGIA.

The Department asked MP to provide in reply comments why it would be reasonable for MP's regulated ratepayers to continue to bear costs associated with the Bison 6 LGIA after the executed sale date of April 17, 2017. MP's reply stated that "it is not reasonable for ALLETE Clean Energy to be allocated costs until they are using the transmission facilities."

The Department argues that it is not reasonable that ratepayers should continue to bear costs (e.g., depreciation, rate of return, O&M, etc.) associated with the Bison 6 LGIA after the effective date of the Agreement. Moreover, the terms of the Assignment and Assumption Agreement supports the Department's position as it states that "as of the date of execution of this Agreement" MP shall have "no further obligation or liabilities of any kind whatsoever under the Bison 6 LGIA."

> 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 of any kind whatsoever under the Bison 6 LGIA.[4]

Therefore, the Department recommends that, if the Commission approves the sale of the Bison 6 LGIA to affiliate ACE, the Commission should direct MP to determine the value of the one-time capital payment credited to ratepayers as of the execution date of the sale agreement and that ratepayers are also credited with the Bison 6 LGIA pro rata share of the O&M expenses effective as of the execution date.

MP's reply stated that, should the Commission decide to use the April 2017 as the date to determine the one-time capital payment, MP calculated that it would be $8,023,107.49 (rather than $7,413,695.11) or an increase of $609,412.38. However, the Department points out that MP's calculated increase did not consider the Bison 6 LGIA's share of capital costs related to the Center-Mandan upgrades, when applying the "as of" April 2017 date. Using Company-provided workpapers, the Department calculated that the one-time capital payment would be $8,329,187.45, or an increase of $629,930.34 over MP's initial proposal of $7.7 million when determining value based upon the Agreement's execution date (See DOC Attachment 1-RC for calculations). Use of the April 2017 date, rather than December 2019, increases the capital credit to ratepayers by more than 8 percent over the Company's proposal.[5]

C. CONSISTENT METHOD TO CALCULATE PRO RATA FACTORS

The Department's initial comments pointed out that MP used inconsistent approaches when calculating factors employed to pro rate costs to ACE. MP's reply comment stated that it corrected the rounding issue in its response to an information request. Schedules included in

[4] Initial filing, Exhibit 1, pp. 1-2.
[5] $0.630 million / $7.700 million = 8.18 percent.

MP's Attachments 1 through 3 to the Company's reply comments also demonstrate that MP is now consistently using precise measures when determining factor ratios. Therefore, the Department concludes that this observed inconsistency is resolved and appreciates that MP accepts use of precise and consistent measures for factor computations.

D. TRI-COUNTY SUBSTATION COST COMPONENTS USED TO DETERMINE THE ONE-TIME CAPITAL PAYMENT AMOUNT

In determining Bison 6 LGIA pro rata share of the capital costs pertaining to MP's 230 kV AC transmission facilities, the Company considered only the infrastructure costs classified as part of the transmission-function of these facilities. The remaining portion of MP's 230 kV AC transmission facility costs is classified as generation functions, and those costs were excluded by MP when determining the proposed Bison 6 LGIA pro rata share of capital costs. Below is a listing of the 230 kV AC transmission facilities the Bison 6 LGIA uses that are classified as having both generation and transmission infrastructure, disclosing the portion of the component's capital costs classified as transmission-function:[6]

Facility Description	Transmission-function Allocation
Tri-County 230/34.5 Bison 4 Sub	40.26%
Bison 2 Sub	12.06%
Bison Sub for Bison 3 Wind	23.80%
Bison 4 Sub	26.72%
Bison 1 230/34.5 kV sub	61.00%

ACE's Clean Energy #1 wind farm will be interconnected at the Tri-County substation; thus ACE will use and benefit from both the generation and transmission functions/infrastructure of that substation.

The Department asked MP address in reply comments why only the transmission cost component of the Tri-County substation was used to determine the one-time capital payment from ACE. MP replied that "additional substation facilities needed for generation interconnection will be paid for in whole by the owner of the generation interconnection."[7]

The Department agrees that ACE will be obligated to pay entire costs for any upgrades required, but that fact does not necessarily mean that ACE only bears the incremental costs of

[6] See DOC Attachment 3, p. 2 provided in the Department's initial comments.
[7] MP's Reply comments, p. 4.

the generation-function infrastructure. Similarly, ACE is obligated to pay entire costs for any upgrades to the transmission infrastructure, but that fact does not exempt ACE from being allocated its pro rata share of the existing transmission infrastructure costs. The facility's infrastructure costs are fully allocated to users of those functions. Furthermore, MP's reply offered no discussion on available or excess capacity of the existing generation infrastructure at the Tri-County substation, nor the land and other infrastructure in place that Clean Energy #1 will use or benefit from. MP's reply did not attest that all the existing generation components and facilities at the Tri-County substation are exclusively used by Bison 4 wind farm and cannot be shared in the least with ACE Clean Energy #1. ACE's Clean Energy #1 will benefit from the Tri-County substation generation infrastructure, absent support to the contrary, thus ratepayers should be compensated on a pro rata basis.

In conclusion, MP's reply is not persuasive; therefore, the Department recommends that when determining the one-time capital payment tied to the Bison 6 LGIA to credit to ratepayers, both the generation and transmission cost components of the Tri-County substation should be included, not just the transmission-function components. The Department calculated the revised one-time capital credit to ratepayers to be approximately $10.2 million, using asset values as of the Agreement execution date (April 2017).[8]

E. TAXES OTHER THAN INCOME TAX INCLUSION IN THE ANNUAL O&M ALLOCATION

The Company illustrated the computation for the annual O&M costs prorated to the Bison 6 LGIA, which used O&M amounts from ALLETE's Attachment O[9] filed with MISO as the source document to determine the per-line-mile rate subject to be allocated. The Department's initial comments noted that MP should also include Taxes Other than Income Tax costs in the O&M per-line-mile rate. Taxes Other than Income Tax costs include payroll and property tax costs.

MP's reply comments stated it agreed "that Taxes Other than Income from Schedule O be included in operations and maintenance expenses" and stated that the allocated amount would be $3,350.77. While MP's reply comments appeared to agree with the Department, MP's reply comments do not reflect what the Company actually demonstrated in Attachment 2 of its reply comments. The Company did not use Attachment O as its source for the "Taxes Other than Income" cost when calculating the estimated amount to be allocated to Bison 6 LGIA. Rather, the Company used a $300 per-line-mile property tax rate, which was not from Attachment O, and MP omitted inclusion of other tax costs, such as payroll taxes.

[8] See DOC Attachment 2-RC.
[9] Attachment O is the overall transmission revenue requirement used by MISO and approved by FERC. Transmission Owners provide the data for Attachment O.

The Department recommends that the Company use the Attachment O source document for *Taxes Other than Income*. Use of Attachment O is not only consistent with the approach the Company used in determining the amount of O&M costs that are subject to be prorated to third-party users, but also ensures that all other tax component elements are captured for allocation.

Using ALLETE's trued-up 2016 Attachment O,[10] the Department calculates that the amount of Taxes Other than Income per-line-mile rate would be $2,413, and not the $300 per-line-mile rate illustrated by MP's reply Attachment 2.[11] This correction would result in a total of $22,789 in *Taxes Other Than Income* being allocated to ACE annually, and not the $3,929.45 amount shown in MP's reply schedule Attachment 2.

Applying the Department's recommendation, the estimated annual total O&M and *Taxes Other Than Income* cost allocated to the Bison 6 LGIA, collectively, would be $112,451, using amounts from ALLETE's 2016 trued-up Attachment O.[12] Further, if the Commission approves the sale of the Bison 6 LGIA, the Department also recommends that the ratepayers begin to receive credit for Bison 6 LGIA's pro rata share of O&M and *Taxes Other Than Income* effective as of the Agreement's execution date.

F. RENEWABLE RESOURCE RIDER

MP's petition proposed to use its Renewable Resource Rider to flow benefits from this transaction to ratepayers. In its initial comments, the Department agreed and recommended certain specifications.[13] Other than the effective date to use in determining payment amounts and the commencement of benefits, discussed above in Section B, MP's reply comments did not respond to the Department's recommendations. The Department recommended that:

- benefits to ratepayers should begin to accrue as of the Agreement's execution date, including the onset of an annual O&M credit;
- the sale/purchase price be immediately flowed to ratepayers; and
- the revenue requirements attributable to the one-time capital 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.

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[10] See DOC Attachment 3-RC for portion of ALLETE's trued-up 2016 Attachment O.
[11] $5,557,547 Total Other Taxes / 2,303 miles in AC System = $2,413 Total Other Taxes per-line-mile.
[12] See DOC Attachment 4-RC.
[13] See DOC initial comments, pp. 15-17.

G. MINN. STAT. §216B.50 AND MINN. RULE 7825.1800

MP's reply comments argued against applying §216B.50, stating in part that doing so "would expand the scope of what would require prior Commission approval […] to any transaction that utilizes a Minnesota public utility's open access transmission system if the cost is greater than $100,000."[14]

The Department's concern is that when a utilities' facilities, and/or their capacity features built for and paid by ratepayers, are being sold, such a transaction should be evaluated to determine if it is in the public interest, per threshold established in Section 216B.50. Further, review of this transaction appears to be required under Section 216B.50, per Minn. Stat. 216B.16, Subd. 7c which reads:

> Subd. 7c. *Transmission assets transfer.* (a) Public utility owners of transmission facilities may, subject to Public Utilities Commission approval, transfer operational control or ownership of those transmission assets to a transmission company subject to Federal Energy Regulatory Commission jurisdiction. For transmission asset transfers by a public utility, the Public Utilities Commission must review the request to transfer either in the context of a general rate case under this section or by initiating other proceedings it determines provide adequate review of the transmission asset transfer. The Public Utilities Commission may limit, in whole or in part, the transfer of transmission assets or the timing of those transfers by a public utility if it finds the limitation in the public interest. The commission may only approve a transfer if it finds that the transfer is consistent with the public interest. In assessing the public interest, the commission shall evaluate, among other things, whether the transfer:
>
> (1) facilitates the development of transmission infrastructure

[14] MP also stated that in the dispute as to whether the Commission had jurisdiction under Minn. Stat. §216B.50 over "agreements between Minnesota Power and American Transmission Company ('ATC') regarding the development of the Arrowhead-Weston transmission line, the Commission relied upon the fact that ATC would physically lease upgrade substation capacity [sic], facilities and equipment and use Minnesota Power's pre-existing right-of-way over the $100,000 statutory threshold." *In the Matter of Minnesota Power's Petition for Review of an Agreement between Minnesota Power and American Transmission Company, Docket No. E015/PA-04-2020, Order dated June 1, 2005.* To be clear, that proceeding began when MP attempted to exert eminent domain rights in Minnesota on behalf of ATC with no prior approval of the Commission or even notice to the Commission. The Commission required MP to file a petition for approval under Minn. Stat. § 216B.50, "before transferring any ownership interest in the project, including rights-of-way, easements, or any related assets" or to demonstrate to the Commission why such a filing was not required. The Commission found that it had such jurisdiction.

> necessary to ensure reliability, encourages the development of renewable resources, and accommodates energy transfers within and between states;
> (2) protects Minnesota ratepayers against the subsidization of wholesale transactions through retail rates;
> (3) ensures, in the case of operational control of transmission assets, that the state retains jurisdiction over the transferring utility for all aspects of service under this chapter;
> (4) impacts Minnesota retail rates; and
> (5) protects Minnesota ratepayers from paying capital costs for transmission assets that have already been recovered.
>
> (b) **A transfer of operational control or ownership of transmission assets by a public utility under this subdivision is subject to section 216B.50.** The relationship between a public utility transferring operational control of transmission assets to another entity under this subdivision is subject to the provisions of section 216B.48. If a public utility transfers ownership of its transmission assets to a transmission provider subject to the jurisdiction of the Federal Energy Regulatory Commission, the Public Utilities Commission may permit the utility to file a rate schedule providing for the automatic adjustment of charges to recover the cost of transmission services purchased under tariff rates approved by the Federal Energy Regulatory Commission. **[emphasis added]**
>
> (c) A municipal utility, a municipal power agency, or a joint venture pursuant to section 452.25 may transfer operational control or ownership of transmission assets to a transmission company, or make investments in a transmission company, if the governing body of the municipal utility, municipal power agency, or joint venture finds that the transfer or investment is consistent with the public interest and will facilitate the development of infrastructure necessary to ensure reliability.

MP also argued that the sale of the Bison 6 LGIA does not give ACE any real estate rights to MP's facilities. However, the Department counters that transfers do not always involve physical property, but may still involve jurisdictional assets/services.[15]

For instance, in a past transmission-related transaction, Docket E002/M-00-257 (which pre-

[15] The Department's initial comments pointed out that MP identifies the Bison 6 LGIA as an asset. ACE will treat the acquisition of the Bison 6 LGIA as an asset on its books. See response to DOC Information Request No. 6, included in DOC Attachment 5-RC.

dates the creation of Minn. Stat. 216B.16, Subd. 7c – *Transmission assets transfer*), Xcel Energy petitioned to transfer operation control of its transmission facilities to MISO; though Xcel remained the owner of facilities, the Department presented to the Commission that Minn. Stat. §216B.50 provided the best fit to evaluate Xcel's petition.[16] Therein, the Department stated that the transfer of operational control of transmission facilities, a necessary component of providing electric service, is a transaction requiring further review and attention to ensure that the public interest is served. In addition, given the federal- and state-levels of review of certain transactions, the Department noted the similarity of the activity subject to the respective Federal Power Act - Section 203 applications and Minnesota Section 216B.50 filings; and these particular federal and state regulations have the common goal of ensuring that such transactions are in the public interest. Below is a portion of the Federal Power Act - Section 203[17], applicable to transactions by public utilities:

> **(a) Authorization**
> **(1)** No public utility shall, without first having secured an order of the Commission authorizing it to do so—
> **(A)** sell, lease, or otherwise dispose of the whole of its facilities subject to the jurisdiction of the Commission, or any part thereof of a value in excess of $10,000,000;[18]
> **(B)** merge or consolidate, directly or indirectly, such facilities or any part thereof with those of any other person, by any means whatsoever;
> **(C)** purchase, acquire, or take any security with a value in excess of $10,000,000 of any other public utility; or
> **(D)** purchase, lease, or otherwise acquire an existing generation facility—
> **(i)** that has a value in excess of $10,000,000; and
> **(ii)** that is used for interstate wholesale sales and over which the Commission has jurisdiction for ratemaking purposes.
> […]
> **(4)** After notice and opportunity for hearing, the Commission shall approve the proposed disposition, consolidation, acquisition, or change in control, if it finds that the proposed transaction will be consistent with the public interest, and will not result in cross-

[16] DOC supplemental comments, pp. 5-6 in Docket E002/M-00-257 (August 27, 2001).
[17] 16 U.S. Code § 824b
[18] The Energy Policy Act of 2005 amended the threshold amount to be $10,000,000, which had been set at $50,000 prior to the amendment.

> subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company, unless the Commission determines that the cross-subsidization, pledge, or encumbrance will be consistent with the public interest.

With regard to MP's transaction to sell the Bison 6 LGIA, MP has submitted an application before FERC under Federal Power Act - Section 203, yet argues against the need to do so under the similar state-level statute, Minn. Stat. §216B.50.[19] Although the Commission order issued May 9, 2002 in the Xcel Energy Docket E002/M-00-257 did not definitively decide the prevailing statute, the Commission determined it had jurisdiction over the arrangements and granted Xcel a variance to Minn. Rules 7825.1800, subpart B,[20] rules applicable to *"Petitions for approval of a transfer of property […]."* A few years after Xcel's petition, in 2005, Minnesota legislators enacted new Subd. 7c to Minn. Stat. §216B.16.

In MP's petition, the Department's comments cited wherein 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.[21] MP's reply comments cite that within the body of a recent Commission order, the Commission determined that Minn. Stat. §216B.50 did not apply to Xcel Energy's purchase of the Border Winds project in North Dakota (Commission Order issued December 13, 2013 in Docket No. E002/M-13-716 [13-716 Order]); however, the Department counters that from this same 13-716 Order, ordering paragraph No. 5 reads:

> Xcel's acquisition of the Border Winds and Pleasant Valley projects is consistent with the public interest under Minn. Stat. § 216B.50.

Regarding Minn. Rule 7825.1800, MP's reply stated (in footnote 2) "Minnesota Statutes Chapter 216B does not define 'property' but Chapter 7825 is only applicable to 'an operating unit or system' (Minn. Rules 7825.1600, subp. 8) and to property that is depreciated (Minn. Rules 7825.1800(C)." The Department offers the full reading of Minn. Rules 7825.1600, Subp 8 and 7825.1800(C) to point out that the rules are not limited to "an operating unit or system" or to "property that is depreciated":

> Minn. Rule 7825.1600, Subp. 8. *Transfer of property.* "Transfer of property" means the sale or acquisition of an operating unit or

[19] MP's petition was not filed pursuant to any statute.
[20] *In the Matter of the Petition for Approval to Transfer Functional Control of Certain Transmission Facilities to the Midwest Independent System Operator*, Docket E002/M-00-257, order issued May 9, 2002; Commission ordering paragraphs 1 and 3, pp. 15, 17.
[21] See DOC initial comments, p. 14.

> 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]
>
> Minn. Rule 7825.1800(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. [emphasis added]

The Department recommends that, if the Commission approves the sale of Bison 6 LGIA, the Commission should determine this transaction is subject to Minn. Stats. §216B.50 and Minn. Rule 7825.1800 and, absent any granted variance, is subject to the filing requirements referenced by the rule.

H. ALLETE CLEAN ENERGY'S FINANCIAL RESPONSIBILITY FOR FUTURE CAPITAL EXPENDITURES UNDERTAKEN TO REPLACE OR REFURBISH EXISTING TRANSMISSION INFRASTRUCTURE

MP's petition discussed the sale price, annual O&M payments and a one-time capital payment it would receive from affiliate ACE; however, it did not explicitly discuss future capital cost responsibility. The Department's comments discussed its discovery question and MP's response on this matter, and requested the Company to affirm in the record that ACE would bear a pro rata share of future capital expenditures.[22] On page 7 of MP's reply comments, the Company affirmed that ACE is in full agreement that ongoing costs include future capital expenditures undertaken to replace or refurbish existing transmission infrastructure. The Department appreciates MP's response.

III. CONCLUSIONS AND RECOMMENDATIONS

In conclusion, the Department reaffirms its preliminary recommendations and provides additional recommendations to the Commission. Collectively, the Department recommends that the Commission:

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[22] *Ibid*, p. 10.

Applicable Statutes/Rules

- Find that the transaction to transfer the Bison 6 LGIA to ACE is subject to:
  - Minn. Statute §216B.48;
  - Minn. Statute §216B.50; and
  - Minn. Rule 7825.1800;
- Require MP to satisfy the filing requirements under Minn. Rule 7825.1800, absent a request from MP to grant a rule variance;

General Framework

- Accept the Company's corrected, consistent use of precise-sums method to calculate factors employed to allocate capital and O&M costs;
- 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;

Bison LGIA Sales price

- Approve the proposed $121,179 sales price as the minimum sales proceeds amount to immediately credit to ratepayers and require MP to:
  - credit ratepayers with any additional amounts to the extent MP's actual accumulated costs/fees related to this transaction exceed this sale price; and
  - report in the renewable rider petition (in which the benefits of this transaction are reflected) an accounting of all legal, state and federal regulatory costs, as well as other costs related to this matter, that were incurred.

One-Time Capital Payment Credit (approximately $10.2 million applying both DOC recommendations)

- Direct MP to determine the total value of the one-time capital payment credited to ratepayers as of the execution date of the sale agreement, applied to both the 230 kV AC Transmission and Center-Mandan facilities;
- Direct MP, when determining the total one-time capital payment credited to ratepayers, to include both the generation and transmission cost components of the Tri-County substation (i.e., 100 percent of its cost), not just the transmission-function classified components;

Annual O&M Payment Credit

- Direct MP to credit ratepayers with the Bison 6 LGIA pro rata share of the O&M expenses effective as of the execution date;
- 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;

Renewable Resource Rider

- Approve use of MP's renewable resources rider mechanism to credit the transaction benefits to ratepayers;
- Direct that the revenue requirements attributable to the capital (plant-in-service) imputed in MP's base rates[23] but now allocated to ACE due to the sale of Bison 6 LGIA, 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 (rather than an offset to rate base in a rate case).

/ja

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

Third Party Bison 6 Cost Allocation

Overall Project OCLD April 2017	Transmission Component of the Project	**MP's 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	
6,125,692.36	40.26%	Tri-County 230/34.5 Bison 4 Sub: 3021	2,466,203.74
7,176,688.16	100.00%	230kV Tri-County-Bison Line #103: 3503	7,176,688.16
		Total	**9,642,891.90**
1,522,948.61	100.00%	Square Butte 230 kV(East) Bison 1 Addition: 3020	1,522,948.61
512,818.60	100.00%	PH 1 Group 3, Bison Sub Cap Bank	512,818.60
4,058,625.50	12.06%	Bison 2 Sub	489,470.24
4,551,350.95	23.80%	Bison-Substation for Bison 3 Wind	1,083,221.53
5,560,010.51	26.72%	Bison 4 Sub	1,485,634.81
9,944,616.13	100.00%	230 kV Bison To Square Butte Line #84: 3581	9,944,616.13
4,588,347.42	61.00%	Bison 1 230/34.5 KV SUB: 3009	2,798,891.93
		OCLD =	**17,837,601.84**
		ITPUC =	105.6
		IC =	602.2
		ITPUCO = [ITPUC/IC]*OCLD (Bison Sub)	3,127,948.78
		Tri-County Substation	9,642,891.90
		Tri-County Substation (Third Party)	4,895,622.04
		ITPUC =	105.6
		IC =	208
		Total cost to ACE for MP's existing facilities	**8,023,570.82**
		Total Transmission Related Cost for Third Party Interconnection	**8,023,570.82**
		Total Center Mandan Costs Assigned to MP	2,028,183.06
		Generating Capacity - Bison 6	105.6
		Generating Capacity - Oliver County & Bison	700.8
		Third Party (Bison 6) Share	15.07%
		Total cost to ACE for 3rd Party Contribution to Center-Mandan	**305,616.63**
		Total One-time capital payment as of April 2017	**8,329,187.45**

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 April 2017.
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

5. Center Mandan costs allocated to all Bison generators and the following:

Oliver County 1: 50.6
Oliver County 2: 48

Third Party Bison 6 Cost Allocation

Overall Project OCLD April 2017	Transmission Component of the Project	MP's 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		
6,125,692.36	100.00%	Tri-County 230/34.5 Bison 4 Sub: 3021		6,125,692.36
7,176,688.16	100.00%	230kV Tri-County-Bison Line #103: 3503		7,176,688.16
		Total		**13,302,380.52**
1,522,948.61	100.00%	Square Butte 230 kV(East) Bison 1 Addition: 3020		1,522,948.61
512,818.60	100.00%	PH 1 Group 3, Bison Sub Cap Bank		512,818.60
4,058,625.50	12.06%	Bison 2 Sub		489,470.24
4,551,350.95	23.80%	Bison-Substation for Bison 3 Wind		1,083,221.53
5,560,010.51	26.72%	Bison 4 Sub		1,485,634.81
9,944,616.13	100.00%	230 kV Bison To Square Butte Line #84: 3581		9,944,616.13
4,588,347.42	61.00%	Bison 1 230/34.5 KV SUB: 3009		2,798,891.93
			OCLD =	**17,837,601.84**
			ITPUC =	105.6
			IC =	602.2
		ITPUCO = [ITPUC/IC]*OCLD (Bison Sub)		3,127,948.78
		Tri-County Substation		13,302,380.52
		Tri-County Substation (Third Party)		6,753,516.26
			ITPUC =	105.6
			IC =	208
			Total cost to ACE for existing facilities	**9,881,465.04**
		Total Transmission Related Cost for Third Party Interconnection		**9,881,465.04**
		Total Center Mandan Costs Assigned to MP		2,028,183.06
		Generating Capacity - Bison 6		105.6
		Generating Capacity - Oliver County & Bison		700.8
		Third Party (Bison 6) Share		15.07%
		Total cost to ACE for 3rd Party Contribution to Center-Mandan		**305,616.63**
		Total One-time capital payment as of April 2017		**10,187,081.67**

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 April 2017.
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

5. Center Mandan costs allocated to all Bison generators and the following:

Oliver County 1: 50.6
Oliver County 2: 48

Formula Rate - Non-Levelized

Rate Formula Template
Utilizing FERC Form 1 Data

For

(1)	(2) Form No. 1 Page, Line, Col.	(3) Allete, Inc. dba Minnesota Power 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)							
Transmission	321.112.b (Note Y)	82,641,011	TE	0.80532	66,552,279	DA	51,910,224
Less LSE Expenses included in Transmission O&M Accounts (Notes V and Y)		1,670,902		1.00000	1,670,902	DA	1,670,902
Less Account 565	321.96.b (Note Y)	63,606,628	TE	0.80532	51,223,551	DA	37,423,102
A&G	323.197.b	68,273,053	W/S	0.14606	9,972,084	GrPlt AC	7,741,782
Less FERC Annual Fees		1,245,939	W/S	0.14606	181,984	GrPlt AC	141,283
Less EPRI & Reg. Comm. Exp. & Non-safety Ad. (Note I)		1,899,241	W/S	0.14606	277,407	GrPlt AC	215,363
Plus Transmission Related Reg. Comm. Exp. (Notes I and Y)		0	TE	0.80532	0	DA	0
Common	356.1 (Note Y)	0	CE	0.14606	0	DA	0
Transmission Lease Payments (Note Y, Note AI)		1,630,829		1.00000	1,630,829	DA	1,630,829
TOTAL O&M (sum lines 1, 3, 5a, 6, 7 less lines 1a, 2, 4, 5)		84,122,183			24,801,349		21,832,185
DEPRECIATION AND AMORTIZATION EXPENSE (Note AG)							
Transmission	336.7.b (Note Y and Z)	18,019,800	TP	0.8600	15,496,546	DA	12,397,690
Pre-Funded AFUDC Amortization	(Note AD)	(299,868)		1.0000	(299,868)	DA	(299,868)
Abandoned Plant Amortization	(Note AD)	0.00		1.0000	0	DA	0
Pre-Funded AFUDC Amortization for GN7	(Note AD)	0.00		1.0000	0	DA	0
Abandoned Plant Amortization for GNTL	(Note AD)	0.00		1.0000	0	DA	0
General & Intangible	336.10.f & 336.1.f (Note Z)	14,700,719	W/S	0.14606	2,147,213	GrPlt AC	1,666,979
Common	336.11.b	0	CE	0.14606	0	GrPlt AC	0
TOTAL DEPRECIATION (Sum lines 9 - 11)		32,420,651			17,343,891		13,764,801
TAXES OTHER THAN INCOME TAXES (Note J)							
LABOR RELATED							
Payroll	263.i	5,492,487	W/S	0.14606	802,242	GrPlt AC	622,817
Highway and vehicle	263.i	0	W/S	0.14606	0		
PLANT RELATED							
Property	263.i (Note Y)	37,817,320	GP	0.15404	5,825,508	DA	4,772,333
Gross Receipts	263.i	0	NA	zero	0		
Other	263.i	1,357,928	GP	0.15404	209,180	GrPlt AC	162,396
Payments in lieu of taxes		0	GP	0.15404	0	GrPlt AC	0
TOTAL OTHER TAXES (sum lines 13 - 19)		44,667,735			6,836,931		5,557,547

Third Party O&M Cost Allocation = (ITPUC (Tri County)/IC (Tri County)) X (projected O&M expense for AC System / Total AC Transmission Line Miles) X (Line miles - Tri County to Bison)
+ (ITPUC (Bison & Sq Butte)/IC (Bison & Sq Butte)) X (projected O&M expense for AC System / Total AC Transmission Line Miles) X (Line miles - Bison to Squarre Butte)

ITPUC = An Individual Third-Party User's total firm transmission capacity over Transmission Provider Interconnection Facilities

IC = Total Interconnection Customers' firm transmission capacity over the Transmission Provider's Interconnection Facilities, including both existing Interconnection Customer(s) firm transmission capacity and any new Interconnection Customer firm transmission capacity

Year	Attachment O[a] Projected Cost	Total O&M Allocated to AC Transmission System	AC Transmission Line Mile	Cost / Line Mile
2016 O&M	$ 21,832,185			$ 9,481
2016 Other Taxes	5,557,547			2,414
Total O&M and Other Taxes		$ 27,389,732	2,303	**$ 11,895**

Line Miles - Tri County to Bison	Bison 6 LGIA Cost Allocation Percentage (ITPUC/IC) 105.6/208	O&M Cost / Line Mile	Annual Estimated Third Party O&M*
11	50.77%	$ 9,481	$ 52,806
		$ 2,414	$ 13,442
		$ 11,895	$ 66,248

Line Miles - Bison to Square Butte	Bison 6 LGIA Cost Allocation Percentage (ITPUC/IC) 105.6 / 602.2	O&M Cost / Line Mile	Annual Estimated Third Party O&M*
22	17.54%	$ 9,481	$ 36,828
		$ 2,414	$ 9,375
		$ 11,895	$ 46,202

O&M Tri-County to Bison	$	66,248
O&M Bison to Square Butte	$	46,202
Total Estimated O&M Tri-County to Square Butte	**$**	**112,451**

Notes:

1. Total 'O&M Allocated to AC Transmission System' values as reported on MP Attachment O, which is used to determine Transmission revenue requirements.
2. ' Total O&M Allocated to Transmission System' is the current year's budgeted O&M amount allocated to AC Transmission system as reported on Attachment O.
3. This example illustrates the O&M costs allocated toa Third Party for a portion of the O&M for Bison and Square Butte Substations and the Bison To Square Butte Transmission line.
4. A trueup will be performed using the same methodology after actual O&M expenses are known and the difference between estimated and actual costs will either be refunded to the Third Party or collected from the Third Party.
5. AC Transmission Line Miles taken from the 2016 FERC Form 1 Page 422

a - See DOC Attachment 3-RC for ALLETE true-up 2016 Attachment O (partial).

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: 6
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:

For both Minnesota Power and ALLETE Clean Energy, please identify the FERC accounts and provide the journal entries to record the proposed $7.7 million one-time payment, and all related transactions as a result of this affiliated interest agreement.

RESPONSE:

The following tables contain the requested FERC (Federal Energy Regulatory Commission) accounts and journal entries for Minnesota Power and ALLETE Clean Energy.

Proposed Accounting Journal Entries

Journal Entry	Account No.	Title	Debit	Credit
Minnesota Power	Proposed entries to record contributions in aid of capital relating to transmission interconnection rights.			
	146	Accounts Receivable – Associated Companies	$7,699,257	
	101	Electric Plant in Service		$7,699,257

To be completed by responder

Response Date: May 15, 2017
Response by: Brian Bennett
Email Address: Bbennett@allete.com
Phone Number: 218-355-3215

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

Journal Entry	Account No.	Title	Debit	Credit
ALLETE Clean Energy	Proposed entries to record purchase of transmission interconnection rights.			
	121	Nonutility Property	$7,699,257	
	234	Accounts Payable – Associated Companies		$7,699,257

To be completed by responder

Response Date: May 15, 2017
Response by: Brian Bennett
Email Address: Bbennett@allete.com
Phone Number: 218-355-3215

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
Response Comments

Docket No. E017/AI-17-304

Dated this 1st day of November 2017

/s/Sharon Ferguson

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