Debbra A. Davey
Supervisor, Accounting

218-355-3714
email: ddavey@allete.com

November 15, 2018

VIA ELECTRONIC FILING

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

RE: In the Matter of Minnesota Power's 2018 Remaining Life Depreciation Petition
Docket No. E015/D-18-544

Dear Mr. Wolf:

Minnesota Power hereby submits its Reply Comments in the above-referenced Docket.

If you have any questions regarding these Comments, please do not hesitate to contact me at the number above.

Yours truly,

Debbra A. Davey

DAD:sr
Attach.

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of Minnesota Power's 2018 Remaining Life Depreciation Petition	Docket No. E015/D-18-544 **REPLY COMMENTS**

Minnesota Power ("the Company") submits these Reply Comments regarding its 2018 Remaining Life Depreciation Petition in response to Comments filed by the Minnesota Department of Commerce, Division of Energy Resources ("Department") dated November 5, 2018.

Minnesota Power appreciates the review and analysis of the Department and agrees with most of the Department's recommendations, as described below.

In Recommendation 1, the Department recommended approval of Minnesota Power's proposed remaining lives. Minnesota Power agrees with this recommendation.

In Recommendation 2, the Department recommended denial of Minnesota Power's request to update its salvage rates and approve the salvage rates approved in Docket No. E015/D-17-118, as shown in Appendix A-1 to the Company's Initial Filing in this docket. Minnesota Power also agrees with this recommendation.

In Recommendation 3, the Department recommended requiring Minnesota Power to record, during 2018, supplemental depreciation expense of $2.0 million for the Boswell Common Facilities, and $0.8 million for Boswell Unit 3. Minnesota Power agrees with the Department's calculations and appreciates the thorough review that corrected the depreciation calculations. The Company notes that in its 2016 rate case (Docket No. E-015/GR-16-664), the lives of Boswell Units 3, 4, and Common Facilities were in flux until the May 29, 2018 Commission order. The error discovered by the Department occurred in the midst of significant changes to Boswell life assumptions. The Company also notes that customers have not been impacted by this error. As stated in Minnesota Power's response to Department Information Request No. 7c, no similar or related errors had any impacts on the final rates determined in Minnesota Power's 2016 rate case.

While Minnesota Power agrees with the Department's calculation of depreciation expense, it disagrees with the Department's Recommendation 3 to have the Company record the $2.8 million of supplemental depreciation expense in 2018. Minnesota Power proposes instead to amortize these significant out-of-period adjustments to depreciation expense over 60 months. These amortizations would be excluded from any future rate cases if the Company were to file a rate case before the 60-month amortization concludes, thus ensuring that the proposal would have no impacts to customers. Minnesota Power attempted to contact the Department for their feedback about amortizing these costs, but was unsuccessful.

Minnesota Power has been well below its authorized return on equity since the outcome in its 2016 rate case and subsequent negative credit watches by Moody's and Standards and Poor. As reported in Minnesota Power's 2017 Minnesota Jurisdictional Annual Report, the Company's return on common equity for 2017 was 7.99 percent and projected return on common equity for 2018 was 8.03 percent. Both of these are significantly lower than Minnesota Power's allowed return on common equity. If Minnesota Power were required to record the entire $2.8 million of supplemental depreciation expense in 2018, it would further challenge its financial health by further reducing its projected return on common equity. Minnesota Power's proposal to amortize the depreciation adjustment over 60 months would soften the blow by allowing the impact to be recorded to the Company's financials over time.

Minnesota Power faced a similar situation in its 2012 Remaining Life Depreciation Petition in Docket No. E-015/D-12-378. In this case, the Commission allowed Minnesota Power to amortize the cost of a supplemental depreciation expense adjustment related to decommissioning cost calculations over 36 months. Minnesota Power believes the current situation warrants approval to amortize these significant out-of-period adjustments to depreciation expense over a period of 60 months as this would limit the impact on the Company's financials without hurting customers.

In Recommendation 4, the Department recommended requiring Minnesota Power to include in future depreciation filings a comparison of the remaining lives used in its depreciation filing to the operating lives used in the Company's most recent integrated resource plan and explain any differences. Minnesota Power agrees with this recommendation.

In Recommendation 5, the Department recommended requiring Minnesota Power to make its next depreciation filing on or before September 2, 2019 to establish depreciation parameters and rates to be effective January 1, 2019. Minnesota Power also agrees with this recommendation.

In conclusion, Minnesota Power agrees with all the Department's recommendations, but in regard to the Department's recommendation 3, Minnesota Power requests to be able to amortize the $2.8 million of supplemental depreciation expense over 60 months.

Date: November 15, 2018

Respectfully submitted,

Debbra A. Davey
Supervisor, Accounting
Minnesota Power
30 West Superior Street
Duluth, MN 55802
(218) 355-3714
ddavey@allete.com

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

SUSAN ROMANS of the City of Duluth, County of St. Louis, State of Minnesota, says that on the **15th** day of **November, 2018**, she served Minnesota Power's Reply Comments in **Docket No. E015/D-18-544** on the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The persons on E-Docket's Official Service List for this Docket were served as requested.

Susan Romans

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Susan Romans

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_18-544_D-18-544
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_18-544_D-18-544
Riley	Conlin	riley.conlin@stoel.com	Stoel Rives LLP	33 S. 6th Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_18-544_D-18-544
Debbra A	Davey	ddavey@allete.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Electronic Service	No	OFF_SL_18-544_D-18-544
Ian	Dobson	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_18-544_D-18-544
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_18-544_D-18-544
Kimberly	Hellwig	kimberly.hellwig@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_18-544_D-18-544
Lori	Hoyum	lhoyum@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Paper Service	No	OFF_SL_18-544_D-18-544
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_18-544_D-18-544
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_18-544_D-18-544

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_18-544_D-18-544
Susan	Ludwig	sludwig@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_18-544_D-18-544
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_18-544_D-18-544
Herbert	Minke	hminke@allete.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Electronic Service	No	OFF_SL_18-544_D-18-544
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_18-544_D-18-544
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_18-544_D-18-544
Jennifer	Peterson	jjpeterson@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_18-544_D-18-544
Susan	Romans	sromans@allete.com	Minnesota Power	30 West Superior Street Legal Dept Duulth, MN 55802	Electronic Service	No	OFF_SL_18-544_D-18-544
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_18-544_D-18-544
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_18-544_D-18-544