Minnesota Power

Attachment O Rate Formula

Annual True-Up for 2016

1. **With respect to any change in accounting that affects inputs to the formula rate or the resulting charges billed under the formula rate (“Accounting Change”):**
   1. **Identify any Accounting Changes, including**
      1. **The initial implementation of an accounting standard or policy;**

There was not an initial implementation of an accounting standard or policy.

* + 1. **the initial implementation of accounting practices for unusual or unconventional items where FERC has not provided specific accounting direction;**

There was not an initial implementation of an accounting practice for unusual or unconventional items where FERC has not provided specific accounting direction.

* + 1. **correction of errors and prior period adjustments that impact the True-Up Adjustment calculation;**

During the first quarter of 2017, the Company identified an error related to the deferred income tax treatment associated with its Wholesale and Retail Contra AFUDC Regulatory Liability. The Company evaluated the materiality of the error and concluded it was not Material to any previously issued historical financial statements. The Company has revised its historical Comparative Balance Sheet as of December 31, 2016, by decreasing Other Regulatory Assets (182.3) and Accumulated Deferred Income Taxes (282 and 283) by $29.5 million. The correction had no impact on our Statement of Income. The correction also had no impact on the projected Attachment O calculation or the True-Up Adjustment calculation, as the accumulated deferred tax item described above is removed from the accumulated deferred tax amounts utilized in the ratebase calculation in the Attachment O calculation. This removal can be seen in the Attachment O workbook on the tab labeled “Adj to Rate Base-2016 TX”. A note has been added to this workbook tab to provide additional explanation of the adjustment. Any corrections or adjustments to the True-Up Adjustment calculation are noted within the working papers.

Please also note that because the adjustment described above occurred in the first quarter of 2017, the 2016 Annual FERC Report did not include this adjustment. However, the December 31, 2016 balances included in the March 31, 2017 FERC filing were restated to include the adjustment.

* + 1. **the implementation of new estimation methods or policies that change prior estimates; and**

There were no new estimation methods implemented or policies that change prior estimates contained within the Company’s financial statements. Any changes to estimates as to amounts or assumptions are noted within the working papers.

* + 1. **changes to income tax elections;**

There were no changes to income tax elections.

* 1. **Identify items included in the Annual True-Up at an amount other than on a historic cost basis;**

There were no items included in the Annual True-Up at an amount other than on a historic cost basis.

* 1. **Identify any reorganization or merger transaction during the previous year and explain the effect of the accounting for such transaction(s) on inputs to the Annual True-Up;**

There was no reorganization or merger transaction during 2016.

* 1. **Provide, for each item identified pursuant to items II.E.8.a-II.E.8.c of these protocols, a narrative explanation of the individual impact of such changes on the True-Up Adjustment.**

As described above in II.E.8.a.iii, the adjustment related to the Contra AFUDC Regulatory Liability does not impact the Attachment O, due to the fact that these balances are removed from the accumulated deferred tax amounts utilized in the ratebase calculation.

As the Company has not identified any other accounting changes, items recorded at an amount other than on a historic cost basis, or reorganizations or merger transactions that affect inputs to the formula rate, no additional narrative is required here.