**ALLETE, Inc. dba Minnesota Power (MP) Response to Minnesota Department of Commerce Information Request regarding the 2018 ALLETE Projected Attachment O Customer Meeting held October 26, 2017**

1. Regarding Accumulated Deferred Income Taxes (ADIT Prorate) What is the impact on your 2018 Attachment O rates as a result of changing from the monthly ADIT to daily Prorated ADIT? I assume you would have to replace your daily Prorated ADIT calculation with the monthly calculation for ADIT.

ALLETE, Inc./Minnesota Power response:

The impact of the ADIT Prorata is a $17.7 M increase in MP-ALLETE rate base.

Attachment O rate:

ADIT prorata method

Rate Base $2,501,419,691

AC System $4.027 DC System $2.782 ($/kW/Mo)

ADIT non-prorata method

Rate Base $2,483,674,537

AC System $4.014 DC System $ 2.773 ($/kW/Mo)

1. In your Attachment O Workbook – Tab “AFUDC 2018 PA” – please provide support for your AFUDC rate you used.

ALLETE, Inc./Minnesota Power response:

The name of the AFUDC 2018 – PA tab might be a little confusing. There is no AFUDC being calculated currently on these projects or being projected in 2018 for these projects using a 2018 AFUDC rate, because all four projects were already placed into service by 2015. AFUDC is only calculated from a project’s start date until it’s in service date - which would have been between 2005 and 2015 for these projects.

The AFDC rate changes every year. Here is an example (attachment) of the support for the actual AFUDC rate for 2017 (see ‘without short term debt using limits’ section). The actual AFUDC rate in 2017 was 7.546%, broken down between Long Term Debt (1.784%) and Common Equity (5.762%).

Historically, from 2013 to 2016, the AFUDC rate ranged between 7.67% and 7.91%. Prior to 2013, the AFUDC rate fluctuated between 8% and 9%. AFUDC is calculated on a monthly basis, based on cumulative capital spend, and is compounded semi-annually, in June and December.