**ALLETE, Inc. dba Minnesota Power (MP) Response to MCR Performance Solutions Information Request, sent on behalf of Brainerd Public Utilities, received November 30, 2017 regarding the 2016 ALLETE True Up Attachment O and 2018 ALLETE Projected Attachment O**

**Questions from Brainerd Municipal Utility related to the Minnesota Power 2016 ATRR True-Up**

1. Please explain what caused Account 923 – Outside Services Employed to increase $2,298,237 (22.09%) from the 2015 Attachment O True-Up to the 2016 Attachment O True-Up.

MP Response:

The increase in account 923 is primarily due to higher software maintenance costs, as well as higher costs related to system planning and the integration of new resources and load.

1. What projects and/or assets were added to transmission plant in service to cause the $32,386,462 (4.63%) increase from December 2015 to December 2016?

MP Response:

See attached: 2016 Transmission Plant changes to Plant Balance

1. What projects and/or assets were added to general plant to cause the $6,117,562 (3.21%) increase from December 2015 to December 2016?

MP Response:

See attached: 2016 General Plant changes to Plant Balance

1. The following questions pertain to accumulated deferred income taxes:
   1. Are any accumulated deferred income taxes included in the MP Attachment O true-up generated by depreciation, bonus depreciation or otherwise?
   2. If the answer to part (a) is yes, does MP separately track depreciation-related deferred taxes that are generated by AC and DC assets? If no, why not?
   3. Please provide a general description of what has generated the deferred income taxes in each account (281, 282, 283, and 190).
   4. Please explain the driver(s) behind the $75,147,421 (18.41%) increase to Account 190 Accumulated Deferred Income Taxes from the 2015 Attachment O True-Up to the 2016 Attachment O True-Up.

MP Response:

1. Yes.
2. No, MP does not separately track deferred taxes for AC and DC assets. Plant balances are depreciated using a group depreciation method, rather than at the individual asset level. Because of this, deferred taxes are computed at the FERC account level.
3. 281: Deferred taxes in this account are the result of tax depreciation in excess of book depreciation on pollution control property used by the utility.

282: Deferred taxes in this account are the result of tax depreciation in excess of book depreciation on regulated utility property. Does not include pollution control property which is tracked in 281.

283: This account is for tracking deferred tax liabilities on items for which a tax deduction is received prior to the book expense, and items of income which are included in book income prior to being recorded in taxable income.

190: This account is for tracking deferred tax assets on book versus tax differences, as well as tax credits and other tax carryovers. These are items for which a book expense is recorded prior to receiving a tax deduction, and items of income which are included in taxable income prior to being recorded in book income.

1. The increase to Account 190 from the 2015 Attachment O True-Up to the 2016 True-Up is primarily due to an increase in net operating loss carryforward, state tax credit carryforwards, and federal production tax credit carryforwards.

**Questions from Brainerd Municipal Utility related to the Minnesota Power 2018 ATRR Update**

1. Please explain the driver(s) behind the $2,248,425 (23.14%) increase in transmission wages from the 2016 Attachment O True-Up to the 2018 Attachment O Projection.
   1. Why are transmission wages projected to increase by 23.14% while total wages are projected to increase by only 3.50%?

MP Response:

The increase in transmission wages is primarily due to the allocation of greater IT resources to transmission including the impact of an anticipated Energy Management System (EMS) upgrade.

1. Please explain the driver(s) behind the following O&M Account increases from the 2016 Attachment O True-Up to the 2018 Attachment O Projection:
   1. Account 560 Operation supervision and engineering transmission expenses increase of $1,877,803 or an 82.87% increase;
   2. Account 570 Maintenance of station equipment transmission expenses increase of $379,577 or a 12.46% increase.

MP Response:

1. The increase in account 560 is primarily due to differences between the classification of expenses for the 2018 budget and 2016 actuals. In the 2018 budget, transmission O&M costs are primarily included in account 560 while the actual expenses may be charged across a number of different FERC accounts included in transmission O&M.
2. The increase in account 570 is partially offset by a decrease in account 573 primarily due to differences between the classification of expenses for the 2018 budget and 2016 actuals. Higher labor and benefit related costs also contributed to the increase.
3. Please explain the driver(s) behind the following A&G Account increases from the 2016 Attachment O True-Up to the 2018 Attachment O Projection:
   1. Account 927 Franchise requirements increase of $1,880,295 or a 167.93% increase;
   2. Account 930.2 Miscellaneous general expenses increase of $981,669 or a 51.89% increase;
   3. Account 935 Maintenance of general plant increase of $13,968,059 or a 298.23% increase.

MP Response:

1. The increase in account 927 is due to a higher rate assessed by a local government.
2. The increase in account 930.2 is primarily due to higher director fees as well as higher labor and benefit related costs.
3. The increase in in account 935 is primarily due to higher cell phone, mobile communication, and software maintenance costs as well as differences between classification in the 2018 budget and 2016 actuals. In the 2018 budget, most of these costs are included in FERC account 935 while the 2016 actuals classify these costs in FERC account 920.
4. Please explain whether the increase from the 2016 Attachment O True-Up to the 2018 Attachment O Projection in the AC System load of 147,000 kW (a 10.30% increase) is due to Minnesota Power’s 2016 contract with U.S. Steel. If it is not, or if the increase is only partially due to the contract, please explain what other rationale(s) there are for the projected increase.

MP Response:

Two of Minnesota Power’s large mining customers (USS and United) had idled operations and reduced demand for electricity in 2016. Both customers have resumed operations, and the peak demand outlook shown in 2018 Attachment O Projection reflects this return to more normal operation at these mines.

1. Please explain the driver(s) behind the 13.67% increase in the equity portion of the capital structure from the 2016 Attachment O True-Up to the 2018 Attachment O Projection.
   1. MP’s percentage of equity in its capital structure was 55% in the 2016 true-up and is projected to increase to 58% in the 2018 projection. Is the percentage of equity in MP’s cost of capital calculation expected to continue at these high levels?

MP Response:

The capital structure is calculated using the methodology established by FERC for Attachment O. The equity balance at ALLETE has increased from the 2016 actual amount to the 2018 projection due to increases in retained earnings and issuances of common stock to fund capital requirements and growth initiatives. This increase has been partially offset by an increase in FERC account 216.1, unappropriated undistributed subsidiary earnings. The capital structure is managed to maintain the company’s credit rating in order to access capital at reasonable terms and to maintain financial integrity. It is expected that the equity percentage will continue to be near the 2018 projection in future years.

1. The transmission plant excluded from ISO rates in MP’s Attachment O decreased from $91.6 million in the 2016 true-up to $70.8 million in the 2018 projection. The following questions refer to transmission plant excluded from ISO rates:
   1. Why was the Essar Transmission Project removed from excluded plant in March of 2018 as shown on the “Notes M&N 2018 PA TS” worksheet in the Attachment O workbook?
   2. Was the $30,850,426 of Essar Transmission plant also removed from the 13 month average calculation of the total electric transmission plant as shown on the “Plant Bal – 2018 PA” worksheet in the Attachment O workbook?
   3. If the answer to part (b) is yes, what other plant was projected to be put into service in March of 2018 to cause the monthly plant balance to increase by $3,123,783 despite the removal of $30,850,426 of the Essar Transmission plant?

MP Response:

1. In our current rate case with the Minnesota Public Utilities Commission (MPUC), Minnesota Power has asked for, and believes we will receive, permission for recovery of the costs of the ESSAR Transmission Project through retail rates. We expect the decision in February 2018. As a result of this expected recovery through retail rates, Minnesota Power reduced the excluded plant costs to zero in March 2018 on Notes M&N.
2. This change did not affect the Transmission plant balance on the Plant Bal worksheet. The ESSAR costs have always been included on that worksheet, but have been offset by the exclusion on Notes M&N worksheet, so they had not been recovered through formula rates. Now that the exclusion on M&N has been removed per expected rate case outcomes, Minnesota Power will begin recovery of those costs through formula rates.
3. Not applicable.
4. The following questions pertain to accumulated deferred income taxes:
   1. Are any accumulated deferred income taxes that are included in the projected 2018 Attachment O generated by depreciation, bonus depreciation or otherwise?
   2. If the answer to part (a) is yes, does MP separately track depreciation-related deferred taxes that are generated by AC and DC assets? If no, why not?
   3. Please provide a general description of what has generated the deferred income taxes in each account (281, 282, 283, and 190).
   4. Please explain the driver(s) behind the $42,701,650 (8.84%) increase in Account 190 Accumulated Deferred Income Taxes from the 2016 Attachment O True-Up to the 2018 Attachment O Projection?

MP Response:

* 1. Yes.
  2. No, MP does not separately track deferred taxes for AC and DC assets. Plant balances are depreciated using a group depreciation method, rather than at the individual asset level. Because of this, deferred taxes are computed at the FERC account level.
  3. 281: Deferred taxes in this account are the result of tax depreciation in excess of book depreciation on pollution control property used by the utility.

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* 1. The increase to Account 190 from the 2016 Attachment O True-Up to the 2018 Projection is primarily due to an increase in federal production tax credits.