**ALLETE, Inc. dba Minnesota Power (MP) Response to MCR Performance Solutions Information Request follow-up questions, sent on behalf of Brainerd Public Utilities, received January 2, 2018 regarding the 2016 ALLETE True Up Attachment O and 2018 ALLETE Projected Attachment O**

**Brainerd Public Utilities**

**Data Requests for Minnesota Power Set 2**

**Questions related to the Minnesota Power 2016 ATRR True-Up**

1. **The following questions refer to the Minnesota Power response to 2016 ATRR True-Up question 1:** 
   1. **Why is Minnesota Power engaging outside services for help with its system planning and new load resources integration?**  
      Minnesota Power has been transforming its power supply towards cleaner and more diverse resources. By 2026, Minnesota Power will have removed more than 700 MW of coal-fired generation from our system and to date, Minnesota Power has added 620 MW of wind and 10 MW of solar energy to our generation portfolio. As Minnesota Power executes this system transformation, like many other utilities across the country, specific expertise on system planning and new load resources integration is needed. Certain components of these expenses involve legal due diligence for acquisitions and consulting services regarding transitioning our power supply sources to be less dependent on coal.
   2. **How much of the $2,298,237 increase in Account 923 is due to the outside services performing work associated with the activities mentioned in part (a) of this question?**  
      Approximately $1.5M relates to standard external expenses incurred in support of strategic system planning as well as integrating new load resources into our system.
   3. **Did Minnesota Power receive competitive bids for the work mentioned in part (a) of this question?**  
      Minnesota Power collects competitive bids whenever appropriate. Certain specialized or confidential services may not require competitive bids.

1. **What caused the net operating loss carryforward, state tax credit carryforwards, and federal production tax credit carryforwards given in response to 2016 ATRR True-Up question 4, part d, to increase by such a large amount year-over-year?**

The net operating loss carryforward is due to bonus tax depreciation deductions for property, plant, and equipment. These accelerated tax deductions have caused Minnesota Power to be in a net operating loss position for tax purposes. The federal production tax credit carryforwards increased as a result of power generation at Minnesota Power’s wind generating facilities. The increase in state tax credit carryforwards were also the result of the wind generating facilities. The state tax credits are earned based on the amount of wind generation property placed into service in prior years.

**Questions related to the Minnesota Power 2018 ATRR Update**

1. **The following questions refer to the Minnesota Power response to 2018 ATRR Update question 1:**
   1. **To which FERC account(s) are the “greater IT resources to transmission including the impact of an anticipated Energy Management System” wages recorded?**

The increased IT resources in transmission are reflected in Account 561.2 Load Dispatch – Monitor and Operate Transmission System.

* 1. **What projects or activities are being performed that are associated with the “greater IT resources to transmission” aside from the Energy Management System upgrade?**

Not applicable. The “greater IT resources to transmission” directly relate to the Energy Management System.

* 1. **Are IT resources dedicated to non-transmission functions allocated directly to those functions as those dedicated to transmission are allocated to transmission?**

If IT resources were fully dedicated to functions that supported other areas, their costs would be allocated directly to those functions. Currently, the Energy Management System is the only system with fully dedicated resources that is not an organization-wide system. The costs for IT resources that support organization-wide systems, hardware, and software are allocated to Other.

1. **Why are transmission O&M expenses primarily budgeted to Account 560 when actual expenses are charged across the various transmission O&M accounts?**

Minnesota Power develops operating budget six months in advance of the year. In developing budgets, information regarding the prior year’s actuals and budget is provided to the department responsible for the account. The department examines the prior year budget and actual amounts as well as estimated work for the coming year in developing its budgets. In the Transmission departments, a portion of expenses may be budgeted to Account 560 (Operation Supervision and Engineering) as the actual deployment of these services to specific activities that are accounted for in other FERC accounts is unknown at the time the budget is developed.

1. **The following questions refer to the Minnesota Power response to 2018 ATRR Update question 3:**
   1. **How much of the $13,968,059 increase in Account 935 was due to each of the listed costs (cell phone, mobile communication, software maintenance)?**

Account 935 included an increase of $12.8 million of software maintenance department expenses, $9.3 of which were reclassified from other Administrative and General accounts, and $1.2 million of cell phone and mobile communication expenses, $0.9 million of which was reclassified from other Administrative and General accounts.

* 1. **Why does Minnesota Power budget “most of these costs” to Account 935 when the costs are actually charged to a different FERC account such as Account 920?**

During an accounting review in 2016, the company determined that certain software maintenance expenses would more appropriately fit the FERC definition provided for Account 935 instead of Account 920 and Account 923 where these expenses were previously charged. This change in accounting for software maintenance and cell phone and mobile communication from Account 920 and 923 to Account 935 accounts will carry forward.