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Before the Minnesota Public Utilities Commission

State of Minnesota

In the Matter of the Application of Minnesota Power
for Authority to Increase Rates for Electric Utility
Service in Minnesota

Docket No. E015/GR-16-664

Exhibit ________

BUDGETING, COST ALLOCATIONS, AND EXPENSES

November 2, 2016

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Steven W. Morris and my business address is 30 West Superior Street, Duluth, Minnesota 55802.

Q. By whom are you employed and in what position?

A. I am employed by ALLETE, Inc., doing business as Minnesota Power ("Minnesota Power" or the "Company"). My current position is ALLETE Controller.

Q. Please summarize your qualifications and experience.

A. I graduated from the University of Minnesota – Duluth in 1985 with a Bachelor of Accounting degree. I am a Certified Public Accountant. I worked for the accounting firm of RSM US LLP (formerly McGladrey & Pullen) for nearly sixteen years as an audit manager. I joined ALLETE in 2001 as the Manager of Financial Reporting and Budgeting. I became the Director of Internal Audit in 2005 and the Director of Accounting in 2010, before assuming my current position as ALLETE Controller in 2014. As Controller, I am responsible for all accounting, budgeting, and financial reporting-related matters.

Q. What is the purpose of your testimony?

A. I present an overview of the Company's budgeting process, including the reliability of our budgets. I also present an overview of the Company's cost containment efforts since our last rate case, including the quantifiable savings and qualitative efficiency efforts we have undertaken. Next, I describe our cost allocation processes. I then describe our employee expense review and provide support for travel, entertainment, and related employee expenses. Finally, I briefly discuss the Company's discontinued use of decommissioning probabilities.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits:

- Exhibit ___ (SWM), Schedule 1 – Budget Variance Analysis
- Exhibit ___ (SWM), Schedule 2 – Minnesota Power Summary of Quantifiable Cost Controls and Savings
- Exhibit ___ (SWM), Schedule 3 – Employee Expense Cost History
- Exhibit ___ (SWM), Schedule 4 – Asset Separation and Accounting Methodology Compliance Filing
- Exhibit ___ (SWM), Schedule 5 – Investor Relations Expense
- Exhibit ___ (SWM), Schedule 6 – Board of Directors Expense
- Exhibit ___ (SWM), Schedule 7 – Corporate Equity vs. Expenses Less Purchased Goods Sold Allocators
- Exhibit ___ (SWM), Schedule 8 – Corporate Credit Card and Employee Expense Reporting Policy and Procedure Manual
- Exhibit ___ (SWM), Schedule 9 – Employee Handbook, Section VIII: Employee Expenses/Recognition/Vehicle Use
- Exhibit ___ (SWM), Schedule 10 – Corporate Credit Card and Employee Expense Reporting Review
- Exhibit ___ (SWM), Schedule 11 – 2017 Employee Expense Summary
- Exhibit ___ (SWM), Schedule 12 – Employee Expense Key Word Search List
- Exhibit ___ (SWM), Schedule 13 – O&M History (2010-2017)

I am also sponsoring Schedule I in Volume IV of the filing, with the exception of Schedule I – 5A, which is sponsored by Company witness Ms. Nicole Johnson.

II. BUDGETING PROCESS

A. Minnesota Power's Budget Process

Q. Please provide an overview of Minnesota Power's annual budget process.

A. The annual budget process results in both an operating budget and a capital budget for Minnesota Power. This is a "bottom up process" initiated at the "Responsibility

Center" – specific department or work area – level. ALLETE currently has approximately 80 different Responsibility Centers across all areas of the Company.

Responsibility Center budgets are developed by the corresponding manager, and reviewed and approved by the appropriate Vice President. The broader capital and operating budgets compiled from the individual Responsibility Center budgets are periodically reviewed as the budget progresses and eventually approved by a committee of senior management comprised of ALLETE's Chief Financial Officer, Controller, Chief Risk Officer, General Counsel, Treasurer, and Minnesota Power's Chief Operating Officer and Senior Vice President of External Affairs. It is then reviewed by ALLETE's Chief Executive Officer and the entire senior management team. Finally, the budget is presented to the ALLETE Board of Directors for review and approval.

Q. Please describe the nature of Minnesota Power's capital budget.

A. The annual capital budget is a detailed annual increment of the Company's long-term capital plan. The long-term plan is based upon the Company's projected capital needs to meet regulatory, environmental, and renewable resource commitments, as well as to preserve existing assets, over a multi-year period. The capital budget consists of detailed project budgets developed by project engineers or project coordinators, with detailed non-budget-year capital expenditures included for multi-year projects.

Q. How is the capital budget developed?

A. The annual capital budget process is initiated at the Responsibility Center level, as described above. For the annual capital budget, detailed project budgets are developed by project engineers or project coordinators from each Responsibility Center that anticipates capital purchases or work that needs to be done during the budget year, with detailed non-budget-year capital expenditures included for multi-year projects. These project budgets are reviewed and approved by the appropriate

Vice President. The annual capital budget compiled from the project budgets is reviewed as the budget progresses and eventually approved by the committee of senior management, ALLETE's Chief Executive Officer, and the entire senior management team. Finally, the budget is presented to the ALLETE Board of Directors for review and approval.

Q. Please describe Minnesota Power's operating budget.

A. The following components comprise Minnesota Power's annual operating budget:

- *Revenues and Megawatt-Hour ("MWh") sales* – Minnesota Power's electric service revenues are budgeted by applying the appropriate tariff rates to forecasted MWh sales by customer class. The forecasted sales for all classes are based on data-intensive modeling completed for the annual Advance Forecast Report ("AFR"). The Company's AFR is filed annually with the Department of Commerce ("Department"). For larger industrial and municipal customers, the AFR results are modified, as necessary, to reflect more recent planned usage information obtained directly from the customers. Company witness Ms. Julie Pierce will discuss the forecasting process in more detail.
- *Fuel and Purchased Power* – On average, fuel and purchased power expenses were approximately 45 percent of total operating expenses from 2011 through 2015. Expected budget period production from our generating plants and existing purchase power agreements are used to project our fuel cost and additional purchase power requirements. A detailed power supply model projects hour-by-hour and seasonal power costs based upon historic trends and current generating unit outage schedules. Generation costs are developed based upon historic cost models, coal and rail contracts, and anticipated dispatch from the power supply model.
- *Labor and Benefits* – On average, labor and benefits make up approximately 54 percent of the operations and maintenance ("O&M") portion of the Company's total operating expenses from 2011 through 2015. Labor costs are developed using current staffing levels as a starting point. Each Responsibility Center then

adjusts for proposed changes to staffing levels due to promotions, retirements, staffing needs, and other factors. Inflationary wage increases over the prior year are incorporated into the calculation when applicable. These proposed adjustments are approved by the applicable vice president and subject to review and approval by the committee of senior management previously discussed. Benefit amounts are determined per the various plan provisions, based on factors such as percentage of pay or actuarially determined under the Accounting Standards Codification ("ASC") 712 Compensation – Nonretirement Postemployment Benefits and ASC 718 Compensation – Retirement Benefits.

- *O&M Expenses, Excluding Labor and Benefits* – O&M expenses that are not labor related are based upon historical amounts adjusted for known operational changes in the business. In the operational area of the business, long-term maintenance and outage schedules are used to determine annual outage expenses.
- *Property Taxes* – Property taxes are projected based on detailed calculations combining historic and budgeted capital expenditures. Company witness Ms. Jamie Jago discusses the property tax projection process in more detail in her Direct Testimony.
- *Depreciation Expense* – Depreciation expense is projected based on detailed calculations combining historic and budgeted capital expenditures. Depreciation expense is reviewed and approved annually by the Minnesota Public Utilities Commission ("Commission") in our Remaining Life Depreciation Petition and every five years in the Average Service Life Petition and General Plant Depreciation Petition. The last approved filing, Docket No. E015/D-15-711, was approved by the Commission in an Order dated September 19, 2016.
- *Interest Expense* – Interest expense for Minnesota Power is determined by multiplying the debt component of average rate base by ALLETE's actual cost of debt outstanding. Allowance for Funds Used During Construction ("AFUDC") Debt is treated as a reduction of interest expense.
- *Income Taxes* – Income tax expense for Minnesota Power is developed for both current and deferred income taxes based on long-standing regulatory precedents

requiring accounting for income taxes on a "stand-alone" basis. The stand-alone method calculates income taxes as if Minnesota Power was the only entity included in ALLETE's consolidated federal and unitary state income tax returns. Company witness Ms. Jamie Jago discusses income tax considerations in more detail in her Direct Testimony. Current Income Taxes are computed using budgeted pretax income adjusted for required federal and state permanent and temporary differences. Deferred Income Taxes are calculated using actual and budgeted temporary differences.

- *ALLETE non-regulated activities and costs incurred on behalf of subsidiaries or other entities* – These items are segregated and not part of Minnesota Power's budget.

Q. Did the Company follow its typical processes, described above, to establish the 2017 budget?

A. Yes. Our 2017 capital and O&M budgets are built from the Responsibility Center up, as I described earlier.

Q. **Does Minnesota Power modify these budgets at all for establishing the revenue requirement in a rate case?**

A. Yes. Our 2017 budget has been modified to incorporate various items such as adjustments required for ratemaking by past Commission decisions; adjustments to amortization periods; removal of items for which cost recovery is not sought, and other miscellaneous adjustments. Company witness Ms. Marcia Podratz will discuss these modifications in more detail in her Direct Testimony.

B. Budgeting Results

Q. Please discuss the accuracy of Minnesota Power's budgeting process.

A. Overall, Minnesota Power's budgeting process has been very accurate. From 2011 through 2015, Minnesota Power's actual results for key financial metrics have an average deviation of approximately one percent to four percent combined above and below budget. For example:

- MWh sales – for the period from 2011 through 2015, the average deviation from budget is 1.6 percent.
- Gross margin (revenue net of fuel and purchased power) – for the period from 2011 through 2015, the average deviation from budget is 0.7 percent.
- Total operating expenses – for the period from 2011 through 2015, the average deviation from budget is 2.0 percent.
- O&M expenses (a sub-category of total operating expenses) – for the period from 2011 through 2015, the average deviation from budget is 4.0 percent.

A comparison between Minnesota Power's budgets and actual results in these categories is attached as Exhibit ___ (SWM), Schedule 1 to my Direct Testimony.

Q. Has Minnesota Power nonetheless experienced material changes in revenues and expenses at any time within the last five years?

A. Yes. Minnesota Power can be significantly impacted by changes in sales to customers that have resulted from economic downturns, specifically in the taconite mining industry. Company witness Ms. Julie Pierce discusses the Company's ability to forecast these dramatic changes and their impact on Minnesota Power's business.

Q. How do such changes affect Minnesota Power's overall budgeting and budget accuracy?

A. Overall, the budgeting process utilized by Minnesota Power has a history of producing accurate financial estimates. However, both our revenues and expenses, including the accuracy of our financial estimates, can be significantly impacted by a downturn in market conditions for our Large Power customers. In response to these changes and to better match our costs to the resources available to Minnesota Power, it is necessary from time to time for Minnesota Power to employ countermeasures to minimalize the impact of the economic downturns. Most often, such measures help Minnesota Power weather difficult times but are not sustainable over the long term.

Q. Can you provide more detail about the impact of economic downturns on Minnesota Power's budgeting?

A. Yes. In fiscal years 2011 through 2014, for example, Minnesota Power produced extremely accurate financial estimates with MWh sales averaging approximately 2.0 percent variance from budget, gross margin averaging 0.1 percent variance from budget, Operating Expenses averaging 1.0 percent variance from budget, and O&M expenses averaging 2.7 percent variance from budget. In fiscal year 2015, a year in which many of Minnesota Power's Large Power taconite customers experienced a significant unexpected downturn due primarily to the dumping of steel into the U.S. marketplace, Minnesota Power's actual results differed from our budget most significantly in our gross margins (3.5 percent from budget) and O&M expenses (5.6 percent and 9.0 percent from budget, respectively).

The forecasting deviations from our historical averages in 2015 arose due to efforts employed by management to reduce O&M expenses to help offset the lower MWh sales received from our Large Power customers. These efforts included compensation-related savings from a reduction in head count through attrition, a temporary freeze on external hiring, the delay of contract and professional services expenditures, and especially stringent employee-related expense containment (such as on education and vehicle use).

Q. Were the cost-saving measures taken in 2015 to offset an unexpected reduction in taconite sales "normal" or sustainable over the longterm?

A. No. The efforts employed in 2015 are not sustainable in the longrun to effectively manage our business because we need a competent and capable workforce that is adequately staffed to best operate our Company and serve our customers. Moreover, purchasing delays and employee-related expenses can only be contained to the extent identified in 2015 for so long without negatively impacting our employees' ability to do their work and provide excellent customer service.

We do expect our 2017 sales forecast to be lower than in the past in some respects – although higher than 2015 and 2016, as Company witnesses Ms. Pierce and Mr. Michael Perala explain in their Direct Testimony. Our budgets for 2017 reflect those expectations.

Q. More generally, how has the Company managed through market fluctuations?

A. In addition to the specific additional measures implemented in 2015, the Company has undertaken ongoing cost control measures. Routine reviews of costs are inherent in the budgeting process, as described above, but we also seek out opportunities to save money and increase efficiencies throughout any given year. Despite increasing infrastructure assets and investments since 2010, the Company has managed our employee levels such that our budgeted 2017 headcount is essentially equivalent to our 2010 headcount. In addition, Exhibit ___ (SWM), Schedule 13 to my Direct Testimony demonstrates that but for the addition of the Bison Wind Farm, the Company's 2017 unadjusted O&M budget is largely equivalent to 2010 levels. Notably, the difference between our unadjusted 2017 O&M budget and our 2010 actual O&M is approximately $13.7 million, and our budgeted 2017 O&M for the Bison Wind Farm totals $14.5 million. We have managed to maintain these levels despite the need for significant capital investments, the transformation of our system through the Energy*Forward* initiative, rising costs of employee compensation and benefits, and overall marketplace inflation,

Q. Does the unadjusted 2017 O&M budget described above represent the level of O&M included in the Company's rate request?

A. No. As described by Company witness Ms. Marcia Podratz, the Company proposes a number of adjustments to our regulated O&M budget that further reduce our 2017 test year request. As such, O&M is not a driver of our present rate request and our overall cost containment efforts have helped Minnesota Power avoid rate proceedings for the past seven years. While 2015 and 2016 cost levels are not sustainable, our overall cost controls and robust budgeting process continue to keep 2017 test year costs at reasonable levels.

Q. What do you conclude regarding Minnesota Power's budgeting process and results?

A. Minnesota Power employs a robust budgeting process built from the input of front-line employees and managers, with reviews at each stage of the budgeting process. This culture of cost containment results in budgets that are tailored to providing cost-effective service and to recognizing the limitations of the resources available to us. In some years, as in 2015, Minnesota Power experiences unexpected, significant drop-offs in revenue – primarily when our Large Power customers experience industry-wide declines. I believe Minnesota Power responds appropriately to those situations, and maintains reasonable cost levels that are necessary to the level of service we need to provide our customers.

III. COST CONTAINMENT

Q. Has the Commission identified any requirements regarding Minnesota Power's overall O&M costs for this rate case filing?

A. Yes. In the Company's last rate case (Docket No. E015/GR-09-1115), the Commission ordered (Order Point 15) that in our next rate case filing, Minnesota Power "shall provide testimony about its efforts to control costs. It shall list all cost reductions made, state which cost reductions are permanent, and quantify total cost savings." I provide the introductory testimony and list of cost reductions, including which reductions are permanent, and quantify total savings. This list is attached to my Direct Testimony as Exhibit ___ (SWM), Schedule 2. I also provide additional discussion of cost-saving efforts undertaken by the Company that are not covered by other Company witnesses. Company witness Ms. Nicole Johnson discusses cost savings associated with employee headcount, total compensation, and benefits savings. Company witnesses Mr. Joshua Skelton and Mr. Christopher Fleege provide additional support for cost savings in the generation and power delivery areas.

Q. Please describe the Company's cost control efforts, generally.

A. As a matter of good management, the Company is always looking for opportunities to control cost increases, reduce costs, or increase efficiencies while still providing quality electric service to customers. The results of these efforts can sometimes be quantified, as set forth in Exhibit ___ (SWM), Schedule 2, which provides the quantifiable cost savings where sufficient information is available to specifically measure or estimate savings or avoided costs.

In some circumstances, however, cost control efforts are difficult or impossible to quantify individually. For example, some cost control efforts – such as extending contracts with reduced costs during the remaining term of the existing contract – help contain what would otherwise be higher expense increases in the future. Because the potential future cost is not actually incurred, it may not be possible to definitively calculate the difference between the actual costs and how much higher costs would have been if not for containment efforts. In other circumstances, the cost control effort is only one of many moving parts in the overall management of our resources, such that it is not possible to isolate the specific savings associated with the effort to control costs. For example, efficiency improvements are difficult to quantify because, in many instances, they enable an employee to take on work that otherwise would be deferred or not completed. However, these efforts are built into our budgets as Minnesota Power determines the resources it needs to complete its work.

Q. Please describe the contents of Exhibit ___ (SWM), Schedule 2.

A. Exhibit ___ (SWM), Schedule 2 is a table comprised of information about the Company's quantifiable cost control efforts. The table describes the cost containment efforts of the Company, the date the initiative began, the cost-savings estimate associated with the initiative, the basis for the estimate, and whether the cost savings are temporary, one-time, or permanent. The table also identifies which witness in this proceeding addresses a specific cost containment effort, providing more detail than can be included in this summary schedule.

Q. How was this list developed?

A. Because cost control efforts are a routine part of doing business, the Company initiated this list by consulting its various business units to determine the specific cost containment efforts implemented throughout the Company since our last Minnesota rate case. Quantifiable cost saving efforts were then categorized by initiative and the savings estimate associated with each effort was determined.

This is not to say that Exhibit ___ (SWM), Schedule 2 represents the Company's only cost controls; as discussed above, containing costs is a day-to-day effort throughout the Company, so it is not possible to identify each individual act of cost containment. At the same time, some cost controls are not directly quantifiable due to the many factors that can affect any particular budget or activity. Consequently, Exhibit ___ (SWM), Schedule 2 represents individually identifiable and quantifiable efforts.

Q. To what extent are the identified savings permanent?

A. A portion of the Company's cost containment efforts resulted in permanent savings, while others resulted in one-time or temporary savings. The estimated longevity of the savings associated with each of the Company's quantifiable cost containment efforts is listed in Exhibit ___ (SWM), Schedule 2.

Q. Is there a single total of all cost savings achieved?

A. No. Some cost savings are permanent, some are ongoing but limited in time, and some are one-time savings. Further, the amount of cost savings experienced by the Company with respect to individual cost controls at any given time can fluctuate, and the savings efforts are implemented at various jurisdictional levels. Consequently, it would not make sense to quantify all cost-saving efforts together. However, Exhibit ___ (SWM), Schedule 2 provides the estimated quantity of each cost-savings effort individually.

Q. How are the savings associated with the Company's cost containment efforts incorporated into the 2017 test year?

A. The majority of the cost containment efforts addressed in this proceeding happened in the past and are already incorporated into the Company's past budgets or are continuing into the current test year. Where we have achieved savings in more recent years, they are factored into the Responsibility Center budgets for the applicable year or years. If not for these efforts, our overall costs and budgets would be higher.

Q. Please provide an overview of the Company's cost control efforts addressed in your testimony.

A. The Company's cost control efforts discussed in my testimony include:

- Strategic Sourcing and Sustainable Performance Initiatives
- Ethnography study
- Competitive bidding
- Insurance-related costs, including:
    - Excess liability insurance
    - Property insurance
    - Cyber liability insurance
- Renegotiated contract savings, including:
    - 3-year Oracle maintenance contract
    - AT&T Cellular contract
    - Verizon Cellular contract
    - Consolidating multiple GE maintenance contracts into a single, multi-year contract
- Software maintenance-related reductions, including:
    - Reduction in annual application portfolio maintenance

- Tool for Oracle Application Developers maintenance
- Other miscellaneous savings, including:
  - Disaster recovery test
  - Cyber vulnerability assessment
  - Reduction in Gartner subscription
  - Extended replacement cycle on desktops and laptops.

I discuss each category of cost containment efforts in more detail below.

Q. What is strategic sourcing?

A. Strategic sourcing is an approach to supply chain management that continuously improves and re-evaluates the purchasing activities of a company. With respect to Minnesota Power, in March of 2011, we launched a wave of strategic sourcing initiatives in conjunction with Deloitte focused on supply market analysis, initiating the RFI/RFP process, and a competitive bid process for products and services in the categories of Chemicals, Vegetation Management, Facilities Services, IT/Telecom, and Office Supplies. The Company launched two additional categories in July of 2011 focused on competitive sourcing for key Maintenance, Repair, and Operations ("MRO") & Services, and Travel (hotels, car rental, travel agency, etc.). Beginning in 2011, the Company successfully executed these sourcing categories, resulting in a revision of the original spend baseline from $74.4 million to $33.8 million due to the reallocation of spend to future categories, removal of one-time spend, and removal of spend identified as non-sourceable.

While the initiative was originally arranged to be executed in multiple waves with Deloitte, the Company determined that it could utilize lessons learned from its first strategic sourcing wave. Thereafter, we continued the effort with an internal sourcing initiative to develop continued cost savings associated with additional strategic sourcing. This follow-on, in-house program has been termed the "Sustainable Performance Initiative" and is discussed further below.

Q. What quantifiable cost savings are associated with the Strategic Sourcing Initiative?

A. In total, the Company realized an annual total savings of $3.52 million in 2011. Broken down categorically, the Company achieved cost savings as follows:

- Chemicals: $0.75 million
- Vegetation Management: $0.95 million
- Facilities Services: $1.7 million
- IT/Telecom: $0.1 million
- Office Supplies: $0.05 million
- MRO and Services: $1.5 million
- Travel: $0.05 million

Q. Please describe the basis for this estimate.

A. Our consultant, Deloitte LLP, estimated cost savings based on historical spend.

Q. Are the cost reductions associated with the strategic sourcing efforts to date permanent?

A. Yes.

Q. You mentioned the Company's in-house Sustainable Performance Initiative. What has Minnesota Power done internally to ensure cost savings associated with strategic sourcing?

A. With lessons learned from the first wave of strategic sourcing, the Company's Sustainable Performance Initiative was designed in 2015. For this initiative, our purchasing division partnered with our operations division to identify procurement cost savings opportunities. Certain contracts were targeted to be rebid or renegotiated based on perceived cost savings prospects identified by either purchasing or operations.

Q. What estimated cost savings are associated with the Sustainable Performance Initiative?

A. As of July 31, 2016, cost savings for the Sustainable Performance Initiative were estimated at $748,000. This total estimate can be broken down further into two categories of savings: (1) commodities, where the Company estimated cost savings in the amount of $516,100, and (2) construction and services, where the Company estimated cost savings in the amount of $231,400. To arrive at this estimate, our purchasing division identified which contracts are being rebid or renegotiated and determined the cost savings associated with each contract.

Q. Are these cost savings permanent?

A. Yes, they are.

Q. Please explain the ethnography study performed by the Company.

A. An ethnography study shows how the Company pays its bills. Part of the ethnography study, completed by the Company in 2015 with implementation beginning in 2016, resulted in a push for higher rebates for the Company's credit cards. Higher rebates were obtained by pooling Minnesota Power's spend with that of its subsidiaries. A request for proposals was also conducted in an effort to switch credit card providers.

Another part of the study resulted in a push to automate payments and phase out check printing. Some of our payments are being switched from checks to electronic payments, resulting in lower transaction costs. Some of our vendors are also signing up for a virtual card payment option. The Company will earn a rebate on any virtual card spend, similar to the rebate received for credit card spend.

Q. What estimated cost savings are associated with the ethnography study?

A. The Company estimates the annual cost savings resulting from the ethnography study to be approximately $370,000. In particular, the additional rebate related to the

Company's credit card spend is estimated to result in a savings of $70,000 annually based on historical credit card spend using the higher rebated percentage. An estimated $300,000 in cost savings annually results from implementing electronic payment options. This estimate was calculated by our credit card provider after analyzing the Company's accounts payable process.

Q. Are the ethnography study cost savings permanent?

A. Yes.

Q. How has competitive bidding resulted in cost savings for Minnesota Power?

A. The Company has utilized competitive bidding for many years, but has not always tracked the specific savings associated with these processes. In 2015, the Company began tracking its competitive bidding process for capital projects. To determine cost savings associated with competitive bidding, buyers calculate cost savings when competitive bids are obtained. When calculating, buyers average the total quotes within a competitive range (excluding the low bid) and then subtract the low bid from the average calculated to get the actual hard dollar savings of the purchase. Of note, only cost savings over $1,000 are tracked. Since tracking these cost savings, we have estimated a $12.9 million savings in 2015 and, as of August 31, 2016, we have estimated a $6.2 million cost savings for 2016.

Q. Are the cost savings associated with competitive bidding permanent?

A. Yes, they are.

Q. Please describe the insurance-related cost savings.

A. The Company achieved cost savings in three insurance-related categories between 2010 and 2015: excess liability insurance, property insurance, and cyber liability insurance.

Q. Please describe the cost containment effort related to excess liability costs.

A. In November of 2010, the Company assumed a higher deductible on excess liability insurance to reduce costs. The deductible was increased from $1 million to $2 million based on an analysis of risk tolerance for the Company as well as estimated savings.

Q. What is the total estimated savings for excess liability costs?

A. An estimated annual cost savings of $150,000 was achieved. The underwriter for the policy determined these estimated cost savings.

Q. Are these cost savings permanent?

A. Yes, the savings associated with a higher deductible are factored into our annual insurance premiums. Of course, our total premiums can fluctuate depending on market conditions and other insurance needs at the time of renewal.

Q. Please describe the property insurance savings efforts.

A. Three separate property insurance initiatives resulted in cost savings. First, FM Global, an insurance company, offered membership credits over the past several years. These credits are based on the size and type of claims that occur each year for FM Global. If the number of claims is low and smaller than forecasted, then a surplus results and the savings can be passed back to its members. This initiative resulted in a cost-savings estimate of $400,000 to $600,000 each year, depending on the size and number of claims paid.

Second, the Company was able to insure Taconite Harbor for actual cash values rather than the full replacement cost due to idling the facility. This resulted in a permanent cost savings of approximately $200,000, based on a 50 percent reduction in the premium due to a 50 percent reduction in replacement cost values by switching to actual cash value.

Third, the Company revised replacement cost values for the Boswell Energy Center. The values were last reviewed and agreed upon with the insurance company 10 years ago. Since that time, market indexes were used to adjust for inflation, which, over time, caused values to be higher than comparable insurance market valuations. This revision of replacement cost values resulted in a permanent cost savings of approximately $500,000.

With respect to cyber liability insurance, the Company marketed a program to find an alternate insurance carrier that offered broader coverage and a reduction in costs. The Company also assumed a higher deductible, which increased from $250,000 to $500,000. The estimated cost savings for this initiative is $21,000 as determined by Minnesota Power's insurance company. These cost savings are permanent.

Q. Please describe the renegotiated contracts that resulted in cost savings.

A. The Company renegotiated its Oracle maintenance contract, two cellular contracts, and multiple GE maintenance contracts. In 2014, Minnesota Power extended its Oracle maintenance contract out three years in exchange for a freeze on annual increases during the contract period. That same year, the Company also renegotiated its cellular contracts with AT&T and Verizon to obtain price reductions. Multiple annual maintenance contracts for software packages licensed through GE were consolidated into a single, multi-year contract in August of 2015. The Company also agreed to a 30-year contract on this maintenance. In return, maintenance increases were held flat (instead of three percent annually) for the duration of the agreement and a three percent discount was received.

Q. What quantifiable cost savings are associated with the renegotiated contracts?

A. The three-year Oracle maintenance contract initiative resulted in a savings estimate of $160,000. This estimate is based on historical average increases of three percent. The savings are the difference between that calculated amount and the contract amount. The renegotiated cellular contracts resulted in an estimated cost savings of

$50,000 each based on the revised billing structure. Consolidating the GE contracts resulted in a savings estimate of $100,000, based on the total amount saved over the three-year contract by holding maintenance increases flat and receiving the three percent discount.

Q. Are these savings permanent?

A. The savings for the GE maintenance and Oracle contracts are one-time savings, but the savings for the cellular contracts are permanent.

Q. What maintenance-related reductions were a result of the Company's cost containment efforts?

A. Maintenance-related cost containment efforts stemmed from a 2015 reduction in the application portfolio by dropping annual software maintenance on Open Pages, Documentum, Treehouse Relational, Service Desk Express, Latitude Technologies QuickTariff, GridGuardian, Aspen Relay DB, and Aspen Oneliner. The Company also dropped annual maintenance on DBA and Developer SQL tools maintenance in 2015.

Q. What are the estimated cost savings related to these initiatives?

A. By reducing the application portfolio, the Company recognized an estimated savings of $93,500 based on actual savings from no longer incurring annual maintenance on the software packages. Dropping annual maintenance on DBA and Developer SQL tools resulted in an estimated savings of $15,000. This estimate is based on the historical budgeted amount in the 2015 O&M budget and includes an assumption of a cost increase from the previous year.

Q. Are the cost savings from both initiatives permanent?

A. Yes, they are.

Q. What other miscellaneous cost control efforts were realized by the Company?

A. The Company realized cost savings resulting from not performing an offsite disaster recovery test in 2015 that was budgeted for that year. Cost savings were also associated with a cyber vulnerability assessment in which the Company investigated additional consultants and constrained the scope of the assessment to the minimum required. The Company originally budgeted $100,000 for the assessment but was able to decrease costs to approximately $25,000. In March of 2015, the Company reduced its Gartner subscription for analytic services, dropped the Burton information service for ALLETE, Inc., and reduced the number of management positions from four to three. Additionally, the Company extended the replacement cycle on desktops and laptops from four years to five years in 2016.

Q. Please explain the estimated cost savings associated with each cost containment effort.

A. The savings associated with each effort are as follows:

- An estimated cost savings of $40,000 is associated with not performing the disaster recovery test in 2015. This savings is derived from the estimated cost to rent equipment at a recovery center, based on previous off-site Mainframe and Open Systems testing.
- The Company saved an estimated $75,000 related to the cyber vulnerability assessment. This figure is based on the actual cost versus what was budgeted for the assessment. The budget figure was based on historical costs of previous cyber vulnerability assessments.
- The reduction in the Gartner subscription saved the Company an estimated $50,000. This figure is based on the difference between 2014 and 2016 invoices.
- By extending the replacement cycle on desktops and laptops, the Company saved an estimated $300,000. This savings was only realized in 2015 as only non-functioning machines were replaced that year.

Q. Are the above miscellaneous cost savings permanent?

A. The reduction in the Gartner subscription is a permanent savings; however, the other miscellaneous efforts resulted in a one-time cost savings.

Q. Did the Company implement other cost savings measures in recent years that are not captured on Exhibit ___ (SWM), Schedule 2?

A. Yes. As previously noted, one significant effort involved employee-related expense limitations in 2015. The amount of the reduction directly attributable to management's efforts in 2015 is difficult to quantify, but as illustrated in Exhibit ___ (SWM), Schedule 3, employee expenses in 2015 were nearly 30 percent lower in 2015 than the four-year average of employee expenses from 2011 through 2014. The employee expense limitations related primarily to educational off-site trainings, the related travel expenses, and other non-essential travel for trade shows and investor relations events. Management believes these limitations are not sustainable as Minnesota Power employees need to stay current with industry trainings and topics in order to ensure they are performing their jobs in their highest capacity or completing continuing education to maintain their professional licenses.

Q. What do you conclude regarding the Company's cost savings and cost control efforts?

A. Controlling costs is a continuing and ongoing Company effort that benefits both our customers and our shareholders. Exhibit___(SWM), Schedule 2 offers an illustration of the wide variety of cost containment efforts undertaken by the Company. However, these measures are only one part of the overall process of keeping the costs of providing utility service at reasonable levels. Our budgeting process further contributes to cost containment, as do the day-to-day efforts of employees to avoid expenditures and utilize or improve efficient, cost-effective processes wherever possible.

IV. COST ALLOCATIONS

Q. Can you briefly describe how Minnesota Power fits into ALLETE?

A. Yes. Minnesota Power is a division, not a subsidiary, of ALLETE and comprises the vast majority of ALLETE's activities. Net income from Minnesota Power regulated operations was approximately 85 percent of total consolidated ALLETE net income in 2015, and is projected to be 77 percent of budgeted total consolidated ALLETE net income in 2016. The remaining 23 percent of ALLETE's budgeted consolidated net income in 2016 comes primarily from an investment in the American Transmission Company and from wholly-owned subsidiaries ALLETE Clean Energy, U.S. Water Services, BNI Energy, and Superior Water, Light & Power Company.

Q. How does the Company ensure accurate cost assignment between regulated and non-regulated activities?

A. The Company complies with the guidance developed by the Commission in Docket No. G,E-999/CI-90-1008. In this Docket, the Commission identified four principles for ensuring cost separation between regulated and non-regulated activities:

- Tariffed rates shall be used to value tariffed services provided to the non-regulated activity.
- Costs shall be directly assigned to either regulated or non-regulated activities whenever possible.
- Costs that cannot be directly assigned are common costs which shall be grouped into homogeneous cost categories. Each cost category shall be allocated based on direct analysis of the origin of the costs whenever possible. If direct analysis is not possible, common costs shall be allocated based upon an indirect cost-causative linkage to another cost category or group of cost categories for which direct assignment or allocation is available.
- When neither direct nor indirect measures of cost causation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and non-regulated

activities, excluding the cost of fuel, gas, purchased power, and the purchased cost of goods sold.

The Company directly assigns costs whenever possible; thus, approximately 87 percent of Minnesota Power's 2015 regulated and non-regulated operating and maintenance expenses were directly assigned.

Q. Please describe the process for charging costs that are directly assignable.

A. Company employees record time biweekly in the Oracle Time and Labor software application indicating time spent performing work for Minnesota Power, non-regulated activities, or subsidiaries. The employee's time entry is electronically submitted to the individual's supervisor for review and approval. Time spent directly working on specific Minnesota Power, non-regulated, or subsidiary business is directly assigned. Time that benefits more than one activity or entity is allocated using the allocation methods discussed below.

Costs incurred to purchase goods or services relating to Minnesota Power, non-regulated activities, or subsidiaries are directly charged or billed to the applicable entity.

Q. Please describe the process for allocating costs that are not directly assignable.

A. The approximately 13 percent of the Company's 2015 O&M expenses that cannot be directly assigned relate mostly to general and administrative support activities that benefit all entities in the ALLETE consolidated group. Such activities may include Board of Directors, legal, accounting, human resources, and information technology expenditures.

To allocate such costs, a cost pool is created for each similar type of administrative and general activity. Expenses within each cost pool are then allocated utilizing an allocation method specifically designed for that activity.

There are 20 different Allocation Methods currently being utilized by the Company.[1] The allocators are specific in nature and include factors such as number of employees, fixed asset balances, corporate equity, number of plan participants, and number of desktop and laptop computers.

As an example, payroll services are performed at the ALLETE level for Minnesota Power, as well as for non-regulated activities and subsidiaries. Because the cost of payroll services cannot be directly assigned, they are allocated. The Allocation Method is based on the number of employees in each entity. This Allocation Method correlates closely to the cost of providing payroll services to Minnesota Power, as well as to ALLETE's non-regulated activities and subsidiaries.

The objective of this process is to allocate general and administrative costs in a reasonable and fair manner that correlates the benefit each activity provides to the Company's regulated versus non-regulated and subsidiary activities. Thus, there are no general or default allocations, nor default assumptions as to whether costs should be allocated to regulated, non-regulated, or subsidiary activities.

Q. Have Minnesota Power's cost allocation methods changed materially since its last rate case?

A. No. The cost allocation methods have not changed materially since the last rate case, but there have been changes in the resulting allocation percentages between regulated, non-regulated, and subsidiary activities as the amount of ALLETE regulated and non-regulated activity has ebbed and flowed. These changes have been provided in annual Compliance Filings in Docket No. E015/M-01-1416.

[1] *See In the Matter of the Petition of Minn. Power for Approval of Asset Separation and Accounting Methodology*, Docket No. E015/M-01-1416, MINNESOTA POWER 2016 ASSET AND ACCOUNTING METHODOLOGY COMPLIANCE FILING (May 27, 2016) (describing the Company's allocation methods); *see also Minn. Power's Petition for Approval of Affiliated Interests Between ALLETE and ALLETE Clean Energy*, Docket No. E015/AI-11-868, MINNESOTA POWER 2016 ASSET AND ACCOUNTING METHODOLOGY COMPLIANCE FILING (May 27, 2016) (same).

In conjunction with an accounting and supply chain software system upgrade, the Company reviewed and revised its chart of accounts effective January 1, 2012. These changes were explained in the Company's 2012 compliance filing in Docket No. E015/M-01-1416, dated December 10, 2012, as follows:

> Minnesota Power revised its chart of accounts (COA) effective January 1, 2012. Minnesota Power's previous COA had been in place since 1998 and was developed primarily to prepare for a de-regulated utility business model. As previously structured, the COA intended to provide information centering on functional utility Lines of Business (i.e. Generation, Transmission and Distribution) and Activities, while continuing to maintain the detail of standard departmental costs for cost control and regulatory purposes. The functional cost assignment of the previous COA provided more detail and accuracy than merely using the [Federal Energy Regulatory Commission ("FERC")] Uniform System of Accounts for tracking utility business functions while still remaining in compliance with FERC and Commission accounting rules and regulations. The previous COA was made up of nine primary (plus placeholders for three to-be-determined) segments. The 2012 revision found some of these segments were no longer necessary or useful. The previous COA would have been beneficial in tracking costs in a "de-regulated" environment.
>
> Minnesota Power's revised COA has been implemented to better fit the needs of a vertically integrated utility and to enhance Minnesota Power's regulatory reporting processes. The revised COA simply and directly maintains the requirements of the FERC Uniform System of Accounts by making minor changes to the COA. . . . The most important revision is that the revised COA includes a FERC account segment; the previous COA did not. In the previous COA, the account numbers for assets, liabilities, revenues and certain other operating expenses utilized standard FERC accounts. However, FERC account data for Operating & Maintenance expenses was captured by "mapping" combinations of several other segments of the COA to the proper FERC accounts. The mapping process was established to follow and maintain the requirements of the FERC Uniform System of Accounts. This was a contentious issue in the review of Minnesota Power's initial filing in [*that*] Docket; although the mapping process has worked out as projected since the initial filing, the revision eliminates the major concern with Minnesota Power's process.
>
> In the revised COA, all transactions are recorded directly to the proper FERC account which now more simply and directly maintains the

> requirements of the FERC Uniform System of Accounts and remains compliant with FERC and Commission accounting rules and regulations. The revised COA also remains consistent with the methodology approved in Docket No. E015/M-01-1416, *Asset Separation and Accounting Methodology*.

The Company also noted in that filing that "Minnesota Power's cost allocation methodology remains consistent with the methodology in Docket No. E015/M-01-1416, *Asset Separation and Accounting Methodology*." I have included the filing in its entirety as Exhibit ___ (SWM), Schedule 4.

Subsequent changes to the allocation methods have been addressed in the annual compliance filings.

Q. How does Minnesota Power ensure that customers are only charged a reasonable and appropriate portion of shared service costs?

A. The allocation methods are designed to match the costs being allocated with the corresponding benefit received from the activity. For instance, in the payroll example above, the allocation of the cost of payroll services is proportionate to the number of employees in each entity receiving the benefit of payroll services.

Q. Does your cost allocation testimony also address the requirement that the Company demonstrate that ratepayers are not subsidizing the activities of Minnesota Power's affiliated companies?

A. Yes. In Docket Nos. E015/AI-08-339, E015/AI-08-340, and E015/AI-08-341, addressing Administrative Services Agreements between ALLETE, Inc. and various subsidiaries, the Commission ordered that "the Company must demonstrate in future rate cases that the First Amendment to Services Agreement has not resulted in cross-subsidization by Minnesota Power's ratepayers of the activities of its affiliated companies."[2] As detailed above, Minnesota Power has implemented cost allocation

[2] *See In the Matter of Minn. Power's Petition for Approval of an Admin. Servs. Agreement Between ALLETE, Inc. and its Subsidiary, ALLETE Properties, LLC (f/k/a/ MP Real Estate Holdings, Inc.)*, Docket No. E015/AI-

procedures to ensure accurate cost assignment between regulated and non-regulated activities. The processes described above demonstrate and ensure that the Company's ratepayers are not subsidizing the activities of Minnesota Power's affiliate companies.

Q. Has the Commission identified any specific requirements regarding Minnesota Power's cost allocations for this rate case filing?

A. Yes. In Docket E015/AI-11-868, the Commission ordered that Minnesota Power was required to reflect approved lease payments associated with ALLETE Clean Energy, Inc.'s lease of office space in the ALLETE general office building ("GOB") in its next rate case.[3] However, as noted in the Commission's January 14, 2016, Order in Docket No. E015/AI-15-712 ("January 2016 AIA Order"), in 2015 ALLETE Clean Energy's lease for office space in the GOB was terminated and a new ALLETE Clean Energy lease was approved for office space in the Lake Superior Building in Duluth, Minnesota.[4] The building in which ALLETE Clean Energy currently leases office space is not part of Minnesota Power rate base, but rather is included in non-regulated operations. Therefore, the lease payments from ALLETE Clean Energy to ALLETE, Inc. are included solely in non-regulated operations and are not reflected in this rate filing.

Further, in the Commission's January 2016 AIA Order, the Commission also directed that Minnesota Power should provide in its next rate case:

- Background on Investor Relations and Board of Directors costs, including categories of types of costs, basis for the categories of costs, amounts of costs by

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08-339, ORDER at 1 (Jan. 13, 2009); *In the Matter of Minn. Power's Petition for Approval of an Admin. Servs. Agreement Between ALLETE, Inc. and its Subsidiary, Superior Water, Light and Power Co. (SWL&P)*, Docket No. E015/AI-08-340, ORDER at 1 (Jan. 13, 2009); *In the Matter of Minn. Power's Petition for Approval of an Admin. Services Agreement Between ALLETE, Inc. and its Subsidiary, Minn. Power Enterprises, Inc.*, Docket No. E015/AI-08-341, ORDER at 1 (Jan. 13, 2009).

[3] *In the Matter of Minn. Power's Petition for Approval of Affiliate Interests Between ALLETE, Inc. and ALLETE Clean Energy*, Docket No. E015/AI-11-868, ORDER APPROVING LEASE AGREEMENT AND SALE OF METEOROLOGICAL TOWERS AND REQUIRING ANNUAL COMPLIANCE REPORT at 7 (July 23, 2012).

[4] *In the Matter of Minn. Power's (MP's) Petition for Approval of Affiliate Interests Between ALLETE, Inc. and ALLETE Clean Energy (ACE)*, Docket No. E015/AI-15-712, ORDER at 1 (JAN. 14, 2016).

category, how costs are allocated between shareholders and ratepayers, and why the allocation is reasonable.

- For any costs (besides Investor Relations and Board of Directors) that Minnesota Power continues to allocate using its "Corporate Equity" allocator, Minnesota Power should provide support that these costs cannot be directly assigned and cannot be allocated using an indirect cost causative allocator.
- Additionally, Minnesota Power should explain and support why the Commission's general allocator of "Expenses less purchased goods sold" is not used, including why the Company's "Corporate Equity" allocator is a superior allocator and does not harm ratepayers.[5]

Q. Please explain the nature of the Company's Investor Relations expenses, including categories of Investor Relations costs.

A. The Investor Relations and Shareholder Services team ("Investor Relations") is responsible for all aspects of an organization's investor relations policies, objectives, and initiatives. The team maintains and improves relations between ALLETE and its shareholders and/or the broader financial community, which is in turn necessary to attract and retain the capital needed to operate the Company.

Investor Relations conducts various kinds of work, including directing and overseeing shareholder communications, coordinating dividends and other shareholder payments, account administration and maintenance, cost basis reporting, administering dividend reinvestment and share purchase programs, coordinating company mailings and proxy results, and generally performing all other supportive functions that affect the registered stock and/or shareholders of ALLETE.

Certain memberships or travel to conferences that would typically show up as an "employee expense" are also considered Investor Relations.

[5] *Id.* at 1-2.

Q. Please describe the Company's Investor Relations communications functions in more detail.

A. Investor Relations communications include communications with shareholders, integrating finance, communications, marketing, and securities law compliance to enable the most effective two-way communication between a company, the financial community, and other financial stakeholders. Communications are delivered through a variety of venues including formal presentations and on-site meetings generally in the major financial centers, along with electronic communications via phone, website, and other means.

Q. How does Minnesota Power ensure that it is budgeting a reasonable level of Investor Relations expenses?

A. As discussed earlier in my testimony, the annual budget is initiated at the Responsibility Center level and is subject to a series of review and approvals, including the Investor Relations Responsibility Center budget.

Q. How are Investor Relations costs allocated between Minnesota regulated activities and non-regulated activities?

A. For the 2017 test year, Investor Relations costs are allocated approximately 70 percent to Minnesota Power regulated activities using the Company's corporate equity allocator as described below. The remaining 30 percent of costs are allocated to subsidiaries. The allocation is based on each entity's forecasted equity balance at the close of 2017.

Q. Does Minnesota Power propose to include a portion of Investor Relations costs in rates?

A. Yes, in part. Minnesota Power proposes to exclude 50 percent of the 2017 budgeted Investor Relations costs allocable to Minnesota Power from rates.

Q. Why does Minnesota Power propose to recover only a portion of Investor Relations expenses?

A. The Company recognizes that the Commission has, in recent rate cases, concluded that Investor Relations expenses should be divided between shareholders and customers, since shareholders and customers both benefit from investor relations efforts. Shareholders benefit from Investor Relations activities that support and encourage their investments in the Company. In turn, customers derive benefits from Investor Relations and shareholder investment through reduced costs of capital.

Minnesota Power's regulated electric business is very capital intensive in nature. External funding that is required to construct and maintain a cost effective and reliable electric system typically comes from either debt or equity financing. Investor Relations activities provide a clear line of communication between the Company, the financial community, and other stakeholders, ultimately resulting in a fair market valuation of the Company's stock in the equity markets. The financial community stays connected with the Company's strategy and results through Investor Relations activities. These ongoing Investor Relations activities ensure a stable demand for the Company's stock and contribute to a readily accessible and liquid marketplace to raise equity sourced funds. Investor Relations impacts the Company's stock price and plays an important role in keeping the cost of equity borne by our ratepayers at reasonable levels.

Although Minnesota Power believes that the Company's full allocable share of Investor Relations costs are necessary to keep customer utility costs at reasonable levels and should be recoverable in rates, the Company also recognizes that customers may not fully support the value of some types of investor relations (such as trade shows and travel). To strike an appropriate balance, the 2017 test year excludes one-half of Company-incurred Investor Relations costs from its rate recovery request.

Exhibit ____ (SWM), Schedule 5 provides the various categories of Investor Relations costs for the 2017 test year and shows an adjustment of $368,922, Total Company,[6] from recovery. The base amount for this adjustment includes employee expenses that would otherwise be reportable under Minn. Stat. § 216B.16, subd. 17 as travel and lodging, dues, or food and beverage.

Q. Please explain the nature of the Company's Board of Directors expenses, including any categories of Board of Directors costs.

A. Board of Directors costs primarily include compensation for services provided by members of the Board of Directors and, to a lesser extent, reimbursement for or payment on behalf of expenditures ("expense reimbursements") incurred by members of the Board for company business, such as travel expenses to attend board meetings. Any expense reimbursements are reviewed and approved prior to payment.

Q. How does Minnesota Power ensure that it is budgeting a reasonable level of Board expenses?

A. As discussed earlier in my testimony, the annual budget is initiated at the Responsibility Center level and is subject to a series of review and approvals, including Board of Directors expenses.

Q. How are Board of Directors costs allocated between Minnesota regulated activities and non-regulated activities?

A. For the 2017 test year, Board of Directors costs are allocated approximately 70 percent to Minnesota Power regulated activities using the Company's corporate equity allocator as described below. The remaining 30 percent of costs are allocated to subsidiaries. The allocation is based on each entity's forecasted equity balance at the close of 2017.

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[6] "Total Company" refers to total Minnesota Power regulated, without Minnesota Power's non-regulated entities.

Q. Does Minnesota Power propose to include a portion of Board costs in rates?

A. Yes, in part. The portion of Board compensation costs allocable to Minnesota Power are proposed to be included in rates.

To strike a balance between customers and shareholders, Minnesota Power proposes to include the portion of Board of Directors compensation allocable to Minnesota Power in rates, but not Board of Directors expense reimbursements. The Board of Directors serves as the key oversight for the Company, and a utility cannot function without a board of directors or other management body, regardless of whether it is publicly held or a private company. As such, Board of Directors compensation should be included in rates. That said, Minnesota Power recognizes that the location of some Board meetings can be driven by non-regulated functions. Therefore, Minnesota Power has excluded Board of Directors expense reimbursements from its rate recovery request.

Exhibit ____(SWM), Schedule 6 provides the total Board of Directors compensation and expense reimbursements for the 2017 test year and shows an adjustment of $60,341, Total Company, to exclude Board of Directors expense reimbursements, as budgeted, from recovery. Additional information is provided in Volume IV, Schedule I – 4, as described later in my testimony.

Q. Does Minnesota Power allocate any other costs to the Minnesota utility using its "corporate equity" allocator?

A. Yes, in part. Within the annual compliance filings for Docket No. E015/M-01-1416, the Company describes each allocation method currently in use and the basis on which costs are allocated. As the current 2016 compliance filing shows, there are areas of costs that are allocated solely on the corporate equity allocator method – Board of Directors and Investor Relations costs, as discussed above. The current filing also shows that there are areas of costs that are allocated based on combinations of corporate equity and fixed asset balances. These areas include: Strategic Planning, Financial Planning, Tax Services, Financial Reporting, Finance Services, External Communications, Legal Services, and General Accounting Services. Costs within these areas are directly assigned when possible. However, not all charges, primarily those related to general and administrative support functions, can be directly assigned as they are incurred routinely for the benefit of all or multiple areas of ALLETE. Below, I discuss why these allocation methods are appropriate.

For the 2017 test year, the Company also allocates Audit Services costs using the corporate equity allocator method for costs that cannot be directly assigned. Audit Services costs includes both the costs of the Company's Internal Audit function as well as audit fees incurred from services provided by external auditors. Currently, Audit Services costs that cannot be directly assigned are allocated based on the annual audit plan of ALLETE's Internal Audit function. However, all ALLETE entities receive a benefit from Audit Services functions and should therefore receive a proportionate share of these costs.

Q. Please describe why each of the costs using the corporate equity allocator cannot be directly assigned.

A. Generally, activities and expenses such as those of the Board of Directors and Investor Relations are not readily identifiable as to which entity benefits from the task or expenditure. And, at times, Audit Services activities are not readily identifiable as to which entity benefits from the task or expenditure. For example, an audit or review of the Company's financial statements is a review of the financial activities of ALLETE, Inc. as a whole, with no one single entity as the focus or receiving the benefit. Hence, it is not possible or practical to directly assign such costs in these cases.

Q. Please explain why each of the costs using the corporate equity allocator cannot be allocated using an indirect cost causative allocator.

A. Costs using the corporate equity allocator cannot practically be allocated using an indirect cost causative allocator; allocations of Board of Directors, Investor Relations, and Audit Services costs are not predicated based on headcount, number of computers, fixed asset balances, and the like. Rather, these costs are incurred based on the overall needs of ALLETE.

Q. Why does the Company use a corporate equity allocator instead of the Commission's general allocator of "Expenses less purchased goods sold"?

A. The corporate equity allocator more directly aligns expenditures for the Board of Directors, Investor Relations, and Audit Services with the associated value of each entity. Minnesota Power has long used the corporate equity allocator since Docket No. E015/M-01-1416 addressing *Minnesota Power's Asset Separation and Accounting Methodology*. This methodology was also addressed recently in Docket No. E015/AI-15-712. The purpose for using this method has been explained as follows:

> Corporate Equity is calculated utilizing the amount of equity investment in various entities – ALLETE/MP, MP Lines of Business[7] and ALLETE Subsidiaries. It is not the intent to claim equity as a cost causative factor of increased activity, however, it is an available "number" that often can be equated with the value of an entity and as such it is often interpreted that the activity support for an entity increases with its value. Minimal use of the method is desired.[8]

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[7] It should be noted that this component is no longer in use in the Company's COA as discussed previously in this testimony.

[8] *In the Matter of Minn. Power's (MP's) Petition for Approval of Affiliate Interests Between ALLETE, Inc. and ALLETE Clean Energy (ACE)*, Docket No. E015/AI-15-712, ORDER (Jan. 14, 2016) (quoting Minnesota Power's explanation of the corporate equity allocator).

Q. Can Minnesota Power establish that the corporate equity allocator is superior to the expenses less purchased goods sold allocator and does not harm ratepayers?

A. Yes. In addition to the corporate equity allocator providing a better allocation of costs in alignment with the actual value of each entity, the use of the expenses less purchased goods sold allocator could result in higher allocations to Minnesota Power over time as a result of fluctuations in expenditures at Minnesota Power.

In Docket No. E015/AI-15-712, the Company demonstrated that the corporate equity allocator in use produced consistent results with the Commission's expenses less purchased goods sold method.

Perhaps more importantly, an updated comparison using final 2015 data, whereas the aforementioned docket utilized partial year data, shows that the corporate equity allocator method produces consistent, if not more favorable, results for ratepayers than the expenses less purchased goods sold method. Exhibit ____(SWM), Schedule 7 illustrates the allocation percentages using the corporate equity allocator versus the expenses less purchased goods sold allocator. In 2015, the most recently completed fiscal year, the expenses less purchased goods sold method would result in approximately 70.4 percent of corporate costs being allocated to Minnesota Power regulated operations, whereas the corporate equity allocator method utilized by Minnesota Power resulted in a lower allocation to ratepayers of approximately 68.7 percent. The Company has calculated the expenses less purchased goods sold allocation percentage to the benefit of regulated customers by excluding depreciation, amortization, property, and other taxes from expenses. Adding these items back into the calculation would result in an even higher allocation to ratepayers of 72.4 percent under the expenses less purchased goods sold method.

The Company maintains that the corporate equity allocator is the preferable method, as it more directly aligns Board of Directors, Investor Relations, and Audit Services expenses with the value of each entity, and not on the level of expenditures at each entity which is neither dependent on nor the driving force of Board of Directors, Investor Relations, or Audit Services efforts. The corporate equity allocator is not subject to annual swings in expenditure levels and customers benefit when the Company makes a new or additional investment in an entity. A comparison of the allocation methods shows that the customer is not harmed by the Company's use of the corporate equity allocator.

V. TRAVEL AND EMPLOYEE EXPENSES

Q. What is the purpose of this section of your testimony?

A. In this section of my testimony, I provide support for the travel, entertainment, and related employee expenses in compliance with Minn. Stat. § 216B.16, subd. 17 ("Employee Expense Statute"). The employee expense schedules are provided in Volume IV, Schedule I to the Company's initial filing

Q. Is this the first time Minnesota Power has provided information on employee expenses in the formats contemplated in the Employee Expense Statute?

A. Yes. While Minnesota Power has provided policies and data on employee expenses in previous Minnesota rate cases, the Employee Expense Statute was enacted during the proceedings in our most recent past rate case. This is, therefore, the first rate case in which Minnesota Power has directly addressed the Employee Expense Statute. To inform our efforts, we looked to the governing statute and Commission orders, as well as to the formats and information provided by other regulated utilities in Minnesota that have filed rate cases since this statute's enactment.

A. <u>Corporate Aircraft</u>

Q. Is the Company requesting recovery for Minnesota Power's allocated share of corporate aircraft expenses?

A. No.

Q. Why is the Company choosing to forego recovery of this item?

A. In Minnesota Power's last rate case (Docket No. E015/GR-09-1115), the Commission ordered (Order Point 14) that in our next rate case filing, Minnesota Power "shall include a cost/benefit analysis on the use of corporate aircraft." However, the benefits of corporate aircraft are largely centered on employee efficiency savings that can be difficult to quantify. At the same time, there was significant controversy around the inclusion of 50 percent of corporate aircraft costs in our request for rate recovery. Taking these issues together, Minnesota Power concluded that the corporate aircraft issue would require more time and cost to discuss than is in our customers' interests. Consequently, the Company has decided to forego expense recovery at this time.

B. <u>Employee Expense Policies</u>

Q. How does Minnesota Power incur "employee expenses"?

A. Employee expenses are those expenditures incurred by employees in the course of their employment and in support of the Company's business, such as travel, meals, lodging, and similar expenses. These expenses are tracked in our employee expense reporting system. These expenses are consistent with the categories set forth in the Employee Expense Statute. Employee expenses may include expenditures for airfare, hotel stays, car rentals, parking, meals for business purposes, or employee recognition for the work performed by Company employees to provide safe and reliable service to customers.

These expenses may be either expenses that an employee incurs in furtherance of their employment through their own financial investment (i.e., cash, personal credit card, or check), through their Company issued credit card, or direct invoicing.

Q. Are the Company's employee expenses needed for the provision of utility services?

A. Yes. Company business regularly requires that our employees work at locations other than their offices or primary work locations. Employees often incur expenses when they work in the field to ensure the reliability of the Company's facilities and equipment, manage workers across our service territory, meet with our customers and other stakeholders, or travel to attend conferences or trainings to maintain their knowledge base. Additionally, some employees work at remote locations and must attend meetings or training at the main office in Duluth and incur travel expenses.

Employees also attend training from time to time to ensure they are performing their jobs in their highest capacity or completing continuing education to maintain their professional licenses. The Company encourages employees to take advantage of web-based training to the greatest extent possible, although not all training sessions are available through this technology and certain professional licenses limit the use of web-based or on-demand training to comply with licensing requirements.

Expense guidance is provided in the Company's Employee Handbook.

Q. Has the Commission identified any specific requirements regarding Minnesota Power's employee expense policies for this rate case filing?

A. Yes. In addition to the requirements of the Employee Expense Statute, in Minnesota Power's last rate case (Docket No. E015/GR-09-1115), the Commission ordered (Order Point 16) that in our next rate case filing, Minnesota Power "shall develop written policies on including in rates the costs of employee travel, lodging, and meal expenses and shall implement an employee expense compliance plan to ensure that these policies are followed. The Company shall report on these efforts in its next rate case filing."

Q. Has Minnesota Power developed written policies pursuant to the Commission's Order Point 16?

A. Yes. The Employee's Handbook (Section VIII) and the Corporate Credit Card and Employee Expense Reporting Policy & Procedure Manual provide the guidelines for all employees in regards to the usage of corporate credit cards and expense reports for travel or other business-related expenses. The 2015 versions of the Corporate Credit Card and Employee Expense Reporting Policy & Procedure Manual, and the Employee's Handbook, Section VIII are provided in Exhibits ___ (SWM), Schedules 8 and 9.

In addition, the Employee's Handbook addresses ratepayer impacts of employee expenses, as shown below:

> A significant portion of ALLETE consists of regulated utility operations. As such, both Minnesota Power and Superior Water Light & Power are subject to regulatory review to ensure that the utility rates they charge their customers are reasonable and deemed necessary for the provision of utility service. Thus the impacts on Minnesota and Wisconsin ratepayers should always be considered when incurring and charging an expense.
>
> Expenses incurred while working on regulated operations (such as Minnesota Power, Superior Water Light & Power) should be charged to a regulated work order. Expenses incurred while working on non-regulated operations (such as BNI Coal, ALLETE Properties, non-regulated business development) should be charged to a non-regulated work order. The Company has also determined that entertainment expenses will not be charged to ratepayers (as specified in Entertainment Events and Meals below); therefore, the correct cost type and a non-regulated work order must be used for all costs associated with entertainment expenses.

Q. Has Minnesota Power implemented an employee expense compliance plan to ensure the implemented policies are followed?

A. Yes. As explained previously, the Company developed a written policy after the 2009 rate case, which is documented in the Employee's Handbook and provides the guidelines for all employees in regards to business-related expenses. Additional procedures and required expense documentation for employees are explained in the Corporate Credit Card and Employee Expense Reporting Policy & Procedure Manual. Training on the policies and expense documentation procedures is provided for new supervisors. Training for new employees is, in turn, decentralized to each supervisor. Prior to receiving a corporate credit card, however, employees are required to complete Expense Training, which is administered electronically through the Oracle Learner Self-Service application. Copies of the training handouts and presentations provided to supervisors are included in Exhibit ___ (SWM), Schedule 10. Additionally, Internal Audit reviews employee expenses on an annual basis.

Q. Does the Company continually work to improve its compliance with employee expense reimbursement policies?

A. Yes. As noted above, in addition to providing training of the Company's policies and procedures in regards to employee expenses, the Company performs annual audits to review, on a sample basis, employee expenses. Recommendations are made to management based on audit findings. This information is used to enhance future trainings that incorporate these lessons learned, and to assess the effectiveness of the employee expense process.

C. <u>Employee Expense Review</u>

Q. Has the Commission identified any requirements regarding Minnesota Power's filing of employee expense data for this rate case filing?

A. Yes. In addition to the requirements of the Employee Expense Statute, in Minnesota Power's last rate case (Docket No. E015/GR-09-1115), the Commission ordered (Order Point 13) that in our next rate case filing, Minnesota Power "shall include an itemized schedule of employee recognition expenses."

Q. Has Minnesota Power provided this information?

A. Yes. Minnesota Power has provided this information in Volume IV, Schedule I. This Schedule I includes the information required by the Employee Expense Statute and incorporates the information required in Order Point 13 from our last rate case.

Q. Please explain the information contained in Volume IV, Schedule I.

A. Volume IV, Schedule I of Minnesota Power's initial filing contains line by line detail of employee expenses for 2015, the most recently completed fiscal year, in accordance with the Employee Expense Statute. Minnesota Power has provided schedules to correspond with the costs requested for recovery pursuant to Section 216B.16, subds. 17(1)-(2), (4), (5), (6), and (7) as follows:

- Schedule I – 1A – Travel and Lodging Expenses for Employees
- Schedule I – 1B – Travel and Lodging Expenses for Vice President/Ten Highest Paid[9]
- Schedule I – 2A – Food and Beverage Expenses for Employees
- Schedule I – 2B – Food and Beverage Expenses for Vice President/Ten Highest Paid
- Schedule I – 4 – Board of Director Expenses and Compensation
- Schedule I – 5A – Ten Highest Paid Officers and Employees' Compensation
- Schedule I – 5B – Additional Expenses for Vice President/Ten Highest Paid
- Schedule I – 6 – Dues and Expenses for Membership in Organizations or Clubs
- Schedule I – 7 – Gift Expenses

Also included is a schedule containing the detail of employee expenditures for parking, registrations, fees, and other miscellaneous expenditures, referred to as "Schedule 10." This schedule provides additional transaction detail for travel and also includes other employee-type expenditures not specifically required under the Employee Expense Statute. Finally, Exhibit ___ (SWM), Schedule 11, is the one-

[9] Volume IV, Schedule 5A identifies the ten highest paid employees, as well as those with the title of Vice President or above. In the case of Minnesota Power's 2015 employees (and as explained in more detail below), the list of ten highest paid employees or officers includes all employees at the level of Vice President or above except one. To save regulators from reviewing essentially duplicative schedules, Schedules I – 1B, 2B, and 5B contain expense detail for the highest paid and Vice President or above employees, who are identified by title in Schedule I – 5A.

page summary of the total amounts for each expense category. This one-page summary is also included in Volume IV, Schedule I to this filing.

As discussed previously, the Company is not requesting recovery of Minnesota Power's allocated share of corporate aircraft expense; therefore, a schedule of expenses is not required. A detail schedule is not included for Recreation or Entertainment expenses, as these are accounted for in non-regulated expenditures. Lobbying expenses are excluded expenses for which we are not seeking recovery, as discussed below; therefore, transaction data is not included in Volume IV, Schedule I.

Q. Does Minnesota Power request that any of the information in Volume IV, Schedule I be classified as non-public data?

A. Yes. Schedule I – 5(A) includes compensation information for the highest paid employees of the Company. The Employee Expense Statute allows for the salary of one or more of the ten highest paid officers and employees of Minnesota Power, other than the five highest paid, to be treated as private data on individuals.[10] Minnesota Power requests that the salaries of the highest paid employees other than the five highest paid be kept non-public for competitive reasons.

Q. Can you provide additional information explaining how Minnesota Power tracks and accounts for employee expenses?

A. Yes. The Company uses Oracle Payables to process all invoices, employee expense reimbursements, and company credit card reconciliations. In addition to payment for business meals and travel expenses, employees are encouraged to use a corporate-issued credit card for registrations, books, dues and subscriptions, safety work clothing, and miscellaneous small dollar ($3,000 or less) material purchases necessary to conduct company business.

[10] Minn. Stat. § 216B.16, subd. 17(c).

All transactional detail is maintained in Oracle Payables and is also stored in a data warehouse. The data warehouse provides a single source for storing all financial transactions, allowing users to access information in one location rather than needing access to multiple financial subledgers.

Q. How did Minnesota Power extract the data provided with this rate case?

A. As previously noted, the Employee Expense Statute requires that we provide employee expense data from our last completed fiscal year, which is 2015. Our original extraction of data was limited to costs assigned to the Minnesota electric jurisdiction, either directly or through allocation. After the Company's last rate case, and as part of an accounting system upgrade, cost types were developed as part of the Company's chart of accounts to capture expenses into categories based on the Employee Expense Statute.

Q. How was the data warehouse queried to develop the employee expense schedules?

A. Using the data warehouse, queries were made on each cost type, exported to Excel, and then separated into spreadsheets based on the filing requirements of the Employee Expense Statute. These expenses were either paid via direct company invoicing from the vendor, employee expense report reimbursement, or by corporate credit cards issued to employees.

We also searched for employee expenses charged via expense report or credit card to cost types that were not responsive to the categories under the statute, such as in the cost types used for contractor services, safety clothing and equipment for plant, construction, or maintenance personnel, or office supplies. In these cost types, we identified items that may not be considered appropriate for recovery, such as life or social event expenditures, and included those amounts in the test year adjustment.

Q. How was the queried data formatted for executive employees and Board members?

A. The Employee Expense Statute requires the Company to include schedules of expenses for the ten highest paid employees,[11] board members,[12] and all employees at the level of vice president or above.[13] We obtained a list of the top ten paid employees for 2015. There was one non-vice president- or higher level employee on this list of the ten highest paid. For simplicity, we chose to include this employee with the vice president-level and higher group and use a single group of individuals for both the top ten and vice president level and higher reporting requirements. We then made the determination that Minnesota Power would not request recovery of employee expenses for Chairman, President, and CEO, Alan R. Hodnik, or for the travel, lodging, and meals of Senior Vice President and Chief Financial Officer, Steven Q. DeVinck. The reports were modified accordingly.

Further, due to the retirement or resignation of four vice presidents in 2015, the determination of who to include in the top ten paid individuals list would vary depending on the given point in time. To ensure compliance, we have provided an all-inclusive list of top ten paid and vice president or higher level employees, which provides more, rather than less, detail.

Finally, we have also excluded from recovery expense reimbursements made to board members, as previously noted.

Q. How were these reports then reviewed?

A. Our remaining source data was separated into each required reporting category. We then reviewed each category by investigating transactions using our keyword search, which we explain in further detail below. We then began looking for non-distinct or unclear business purposes, employee recognition transactions, foreign travel,

[11] Minn. Stat. § 216B.16, subd. 17(a)(5).
[12] Minn. Stat. § 216B.16, subd. 17 (a)(4).
[13] Minn. Stat. § 216B.16, subd. 17(b).

lobbying-related transactions, board of directors costs, investor relations transactions, and life or social events and excluded items from recovery.

This process was largely manual and included line-by-line reviews of all employee expenses. The determination of the validity of transactions requires careful consideration and the application of judgment. For example, when an employee's business description of the expense did not provide enough information to determine validity, we looked at other information in the accounting data, such as the description of the charging work order, to gain additional insight. We believe we have made a good-faith effort to exclude any items not necessary for the provision of utility services.

Q. How were the word searches performed?

A. We used keyword searches to identify transactions for review. We started with the keyword listing from similar rate cases, as well as words we determined should be searched for based on our company activity. The keyword list is attached as Exhibit ____ (SWM), Schedule 12 to my testimony. Transactions where keywords were found were then reviewed to determine the appropriateness of the business purpose. The keyword search was one of many ways we analyzed the large amount of data but it should not be assumed that all transactions where these words were found have been excluded.

Q. Please describe the line-by-line evaluation performed after word-search-based exclusions were complete.

A We looked at all transactions not excluded through the keyword search and excluded those that we found to have a vague business purpose. We also reviewed all schedules for transactions related to employee recognition, foreign travel, lobbying, investor relations, and life and social events, based on the following criteria:

- Business purposes that were vague or unclear were excluded where additional details within the accounting data did not help describe the nature of the expense.
- Employee recognition was excluded, with the exception of recognition related to safety achievements.
- Foreign travel was excluded except to the extent it was specifically related to utility operations, such as our Manitoba Hydro project.
- Lobbying-related transactions were excluded.
- Investor relations employee expense-related transactions were identified and will be subject to the fifty percent exclusion for all 2017 test year Investor Relations expenditures, as noted earlier in my Direct Testimony.
- Life and social event transactions were excluded except for non-discretionary length of service and retirement awards issued by ALLETE's Human Resources Department.

Q. Does Minnesota Power believe that employee expenses have been appropriately excluded from the test year?

A. Yes. Our review of employee expenses was thorough and complete. We believe we have made a good-faith effort to exclude any items not necessary for the provision of utility services and attempted to err on the side of exclusion rather than inclusion of costs.

Q. What are the results of Minnesota Power's employee expense review?

A. As a result of the employee expense review, we have identified an adjustment in the amount of approximately $1.6 million Total Company. This amount has been applied to the 2017 rate recovery request. A summary schedule of these adjustments, by type of expense, is included as Exhibit __(SWM), Schedule 11.

D. Lobbying

Q. Has the Commission identified any requirements regarding Minnesota Power's accounting for lobbying expenses for this rate case filing?

A. Yes. In Minnesota Power's last rate case (Docket No. E015/GR-09-1115), the Commission ordered (Order Point 17) the Company to adopt accounting procedures to readily identify lobbying expenses and "to record these expenses to FERC Account 426.4, Civic and Political Expenses."

Q. Has Minnesota Power adopted procedures to identify lobbying expenses and record these expenses to FERC Account 426.4?

A. Yes. Minnesota Power has adopted procedures and records these expenses to FERC Account 426.4, Expenditures for certain civic, political and related activities, which is not included in our rate request. Employees also make a good faith effort to record expenses to the appropriate accounts. As part of our review of employee expenses, we also looked for any indirectly-related lobbying expenses and excluded these items. An adjustment to exclude these expenditures from rate recovery is included in the total test year adjustment, as discussed above. Accordingly, we believe the 2017 test year appropriately excludes lobbying expenses from our cost of service.

VI. DECOMMISSIONING PROBABILITIES

Q. Has the Commission identified any requirements with respect to the use of decommissioning probabilities?

A. Yes. In Docket No. E,G-999/CI-13-626 addressing the Commission's inquiry into decommissioning policies related to depreciation, the Commission ordered utilities to "stop using decommissioning probabilities in determining the salvage portion of depreciation expense" (Order Point 1) and for Minnesota Power, specifically, to "stop using decommissioning probabilities starting in its next general rate case, or as of January 1, 2020, if it has not filed a general rate case by that date" (Order Point 3).[14]

[14] *In the Matter of a Commission Inquiry into Decommissioning Policies Related to Depreciation*, Docket No. E,G-999/CI-13-626, ORDER PROHIBITING USE OF DECOMMISSIONING PROBABILITIES TO CALCULATE THE SALVAGE PORTION OF DEPRECIATION EXPENSES at 4 (Oct. 26, 2015).

Q. Is Minnesota Power in compliance with the Commission's Order requiring the Company to discontinue the use of decommissioning probabilities?

A. Yes.

Q. Please explain.

A. Minnesota Power's current rate case reflects a 2017 test year. Therefore, Minnesota Power has reflected one hundred percent decommissioning probabilities in the 2016 rate case using a 2017 test year. This will also be reflected in the Company's 2017 Remaining Life Depreciation Petition.

VII. CONCLUSION

Q. Does this complete your testimony?

A. Yes.

Minnesota Power

Actual Variance From Budget Historical Summary

	2011			2012			2013			2014			2015			Average 2011-2015		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Gross Margins																		
Revenue	815,725	771,187		838,618	838,894		883,294	876,537		956,416	932,905		954,977	1,003,798		4,449,030	4,423,321	
Fuel	144,166	147,526		135,020	150,942		155,099	150,950		143,069	142,561		127,118	131,690		704,472	723,669	
Square Butte	61,198	67,495		67,090	69,167		71,073	72,685		70,082	74,745		77,784	77,907		347,227	361,999	
Other PP	101,213	74,069		106,585	91,215		108,590	85,365		142,970	107,736		123,234	144,585		582,592	502,970	
Margins	509,148	482,097	27,051	529,923	527,570	2,353	548,532	567,537	(19,005)	600,295	607,863	(7,568)	626,841	649,616	(22,775)	2,814,739	2,834,683	(19,944)
	0.38	0.37	5.61%	0.37	0.37	0.45%	0.38	0.35	-3.35%	0.37	0.35	-1.25%	0.34	0.35	-3.5%	0.37	0.36	**-0.7%**
Total Operating Expenses	356,513	349,897	6,616	374,866	373,063	1,803	399,193	413,998	(14,805)	425,515	434,484	(8,969)	443,246	469,602	(26,356)	1,999,333	2,041,044	(41,711)
			1.89%			0.48%			-3.58%			-2.06%			-5.6%			**-2.0%**
Operating and Maintenance Expenses	250,022	245,581	4,441	258,579	258,351	228	263,522	281,496	(17,974)	278,673	291,546	(12,873)	275,346	303,194	(27,848)	1,326,142	1,380,168	(54,026)
			1.81%			0.09%			-6.39%			-4.42%			-9.2%			**-3.9%**
Transmission Expense	23,244	21,121	2,123	29,823	28,424	1,399	32,314	32,399	(85)	45,585	49,472	(3,887)	54,114	59,949	(5,835)	185,080	191,365	(6,285)
			10.05%			4.92%			-0.26%			-7.86%			-9.7%			**-3.3%**
O&M Less Transmission Expense	226,778	224,460	2,318	228,756	229,927	(1,171)	231,208	249,097	(17,889)	233,088	242,074	(8,986)	221,232	243,245	(22,013)	1,141,062	1,188,803	(47,741)
			1.03%			-0.51%			-7.18%			-3.71%			-9.0%			**-4.0%**
Total MWh Sales	13,192,752	12,683,595	509,157	13,106,314	12,911,977	194,337	13,264,062	13,147,553	116,509	13,942,499	13,692,135	250,364	14,369,559	14,389,285	(19,726)	67,875,186	66,824,545	1,050,641
			4.01%			1.51%			0.89%			1.83%			-0.1%			**1.6%**
Retail and Municipal MWh Sales	10,988,199	10,473,090	515,109	11,107,357	11,001,970	105,387	10,985,809	11,236,598	(250,789)	11,038,979	10,998,343	40,636	10,059,466	11,093,840	(1,034,374)	54,179,810	54,803,841	(624,031)
			4.92%			0.96%			-2.23%			0.37%			-9.3%			**-1.1%**

Minnesota Power Summary of Quantifiable Cost Controls and Savings

Docket No. E015/GR-09-1151 Commission Order dated 11/2/2010, page 71, Order Point 15:

"Include testimony about efforts to control costs, including list of cost reductions made, identification of which cost reductions are permanent, and quantification of total cost savings."

Initiative	Description	Date of Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
Electric Meter Operations	Capital reduction of 80% annually and O&M savings per year for Dual Fuel System upkeep after changing to AMI and simplified asset management related to the two-way system	2010	$150,000 less annual Capital Requirements and $50,000 annually less O&M Expense	Elimination of Dual Fuel Capital and Maintenance Portion of budget	Permanent	Chris Fleege
Electric Meter Operations	Completed Load Research metering project with 30% less capital than previous load research project. Purchase of AMI Meters for Load Research vs. One-Time Use Load Research Meters (American Innovation Modules) - AMI were lower cost and have a much longer asset life than our previous project.	2012	$280,000	List cost of the AIM Load Research Modules installed in 2003 vs. The AMI Load Research Meters installed in 2012/13	Permanent	Chris Fleege
Engineering	The Distribution Service Representatives in the area doing the General Ledger Work Orders is a savings on mileage of approximately 7% per year Mileage reduction in the form of every other month staff meetings and heavily encouraging ride sharing to all 2012 out of town meetings	2014	Approximately $10,000 annually	Internal Calculation	Permanent	Chris Fleege
Fleet Costs	Identified 19 vehicles for removal from fleet.	2015	$1.03 M	Annual lease expense of the vehicles was $127,000, total replacement cost avoidance is $1.03M	Permanent	Chris Fleege
Fleet Costs	Reduced one fleet position permanently	2015	$79,000	Labor savings	Permanent	Chris Fleege
Fleet Costs	Fleet position staffed one day a week	2015	$60,000	Labor savings	One-Time	Chris Fleege
Fleet Costs	Obtained warranty coverage on service invoices	2015	$12,000	OEM vendors	One-Time	Chris Fleege
Fleet Costs	Refurbished instead of replacing line tensioner tool	2015	$56,000	Internal calculation	One-Time	Chris Fleege

**Note that this list includes those items the Company could reliably quantify per the Commission's Order Point. Testimony addresses additional cost reductions efforts.*

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Initiative	Description	Date of Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
Fleet Costs	Internal up fitting for Spacekap pod installation vs external up fitting; Ability to reuse Spacekap at next replacement	2015	$29,000 $591,000	Internal calculation	One-Time	Chris Fleege
Fleet Costs	Body transfer vs new build	2016	$40,000	Internal calculation	One-Time	Chris Fleege
Service Center Consolidation	Consolidation of Nisswa, Aurora and Chisholm Service Centers. Other consolidations are being studied.	Jul-15	$2.2 million avoided capital investments; O&M savings approximately $36,000 to $90,000 annually	Avoid identified capital investments at closed facilities; reduced overtime associated with deeper crew availability at consolidation locations.	Permanent	Chris Fleege
Upgrade Customer Information System to use corporate standard systems	Upgraded Customer Information System to use corporate standard Oracle database and corporate standard ExaLogic Server. Enabled dropping support for Adabase database and the IBM mainframe	2015	$604,498	Budget cost savings associated with no longer operating the Mainframe.	Permanent	Chris Fleege
Western Union Initiative	Negotiated a reduction in one-time convenience fee for MP customers for electronic payments. Reduces the amount paid by the customer	July 2012	$50,000-$60,000 per year (costs quantified beginning January 1, 2013)	Internal Calculation	Permanent	Chris Fleege

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NON-PUBLIC DOCUMENT
CONTAINS TRADE SECRET DATA

Minnesota Power Summary of Quantifiable Cost Controls and Savings

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Initiative	Description	Date of Action Taken	Savings Estimate **TRADE**	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
Coal Inventory Strategy	**TRADE SECRET EXCISED:** [redacted]	[redacted]	**SECRET EXCISED:** [redacted]. [redacted]	**TRADE SECRET EXCISED:** [redacted] **S.**	[redacted]	[redacted]
Coal Transportation Agreement	**TRADE SECRET EXCISED** [redacted] See Attachment 1 of Minnesota Power's Fuel and Energy Source Procurement and Energy Dispatching Policies Annual Report Filed on Sept. 1, 2015 in Docket No. E999/AA-15-611.	2015	**TRADE SECRET EXCISED:** [redacted]	**TRADE SECRET EXCISED** [redacted].	[redacted]	[redacted]

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Initiative	Description	Date of Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
Fly Ash Sales Agreement	Boswell fly ash cost savings and sale of fly ash	Initiated 2013; extended beginning 2016	Estimated O&M savings of $1.4 million and estimated avoided capital of approximately $2.2 million from 2013 through 2020. **TRADE SECRET EXCISED:** [redacted].	Based on prior sales and existing fly ash sales agreement and estimated O&M and capital cost savings.	Currently temporary through end of sales agreement; potentially extended through contract extension or re-bid.	Josh Skelton
Generation Work Process Improvements	Generation worked to adopt and modify work processes to increase efficiencies for generator outages. Boswell 4 retrofit outage is an example of these efficencies in practice.	Fall 2015	O&M for the Boswell 4 retrofit outage was $2.5 million under budget	Comparison of budget for outage to actual costs incurred.	Temporary	Josh Skelton
Laskin Natural Gas Conversion	Laskin Energy Center converted to 110 MW natural gas peaking plant	2015	$4.2 million in O&M cost savings	Comparison of Laskin's 2016 O&M budget to 2014 O&M budget. 2014 was the last full year of coal operation.	Permanent	Josh Skelton
Reagents Usage and Sourcing	Actual costs for reagents for BEC 12, BEC3, BEC4 and THEC emissions equipment have been lower than budgets since 2010 due to usage optimization efforts by the Company.	2010	Approximately $22 million since 2010 or $3.7 million annually.	Comparison of budgeted amounts to actuals.	Permanent, but affected by future plant needs	Josh Skelton
Units Re-missioned	Taconite Harbor idled	2016	Approximately $10 million annually. For years when start-up is required, net savings is approximately $8.75 million (including $1.25 million start-up costs),.	2015 budget vs. 2017 budget	Depends on need	Josh Skelton

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Initiative	Description	Date of Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
Head Count Decreases	Head count reductions began mid-2014 and have continued into 2016. Headcount for 2016 is 1,176 as of 8/31/16 and 1,283 as of 12/31/14.	mid-2014	Approximate savings of $8.7 million.	Comparing 2014 actuals for employee salaries and payroll taxes to 2016 forecast on a total Company Power basis.	Depends on growth of Minnesota Power	Nicole Johnson
Post-Employment Health Benefits	Increased retirement age from 50 to 55 for employees eligible for post-retirement medical and dental	2011	$2.5 million per year for seven years beginning in 2011, $1.0 million per year thereafter on an ALLETE basis.	Actuarial calculations determined by Mercer	Permanent	Nicole Johnson
Post-Employment Life Benefits	Eliminated non-union retiree life insurance for retirements after 12/31/2015.	Jan-16	$800,000 per year for six years beginning in 2015 and $300,000 per year thereafter on an ALLETE basis.	Actuarial calculations determined by Mercer	Permanent	Nicole Johnson
Post-Employment Medical Benefits	Increased cost sharing for post-65 retirees from 25% to 30%	2013	$1.2 million in savings per year for seven years starting in 2013 and $300,000 per year thereafter on an ALLETE basis.	Actuarial calculations determined by Mercer	Permanent	Nicole Johnson
Retirement Benefits	Pension Plan C was created to allow for longer amortization period for inactive Pension Plan participant costs. This had no impact on participant benefits.	Jan-16	$4.7 million annually for approximately 10 years starting in 2016 and decreasing thereafter.	Actuarial calculations determined by Mercer	Temporary	Nicole Johnson
3-Year Oracle Maintenance Contract	Extended Oracle maintenance contract out to three years in exchange for a freeze on annual increases during the contract period	2014	$160,000	Based on a historical average, Oracle maintenance would have increased by 3% per year without this agreement. Savings equate to the difference between that calculated amount and new contract amount.	One-Time	Steve Morris

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Initiative	Description	Date of Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
ATT Cellular Contract Re-negotiation	Re-negotiated contract to obtain a price reduction	2014	$50,000	Re-negotiation of billing structure	Permanent	Steve Morris
Competitive Bidding	Began tracking of competitive bidding process for all capital projects. (Previously did utilize competitive bidding, but did not track savings.)	2015	2015 - $12.9 million; 2016 - $6.2 million as of August 31, 2016	Buyers calculate cost savings when competitive bids are obtained by averaging the total dollar of quotes within a competitive range (excluding the low bid) and then subtract the low bid from the average to estimate' the savings of the purchase. Only cost savings over $1,000 are tracked.	Permanent	Steve Morris
Consolidation of multiple GE maintenance contracts into a single multi-year contract	Consolidated annual maintenance for software packages licensed through GE, including GE Power OnReliance, GE PowerOn Restore, GE Field Force Automation, eDNA, and Industrial Defender. Also agreed to a 30 year contract on this maintenance. In return, maintenance increases were held flat (instead of 3%) for the duration of the agreement and a 3% discount was received.	2016	$100,000	Based on total saved over the three-year contract by having maintenance increases held flat and receiving a 3% discount.	One-Time	Steve Morris
Cyber Liability Insurance	Marketed program to find another insurance carrier offering broader coverage and a reduction in costs. Also assumed a higher deductible increasing from $250,000 to $500,000	Aug-15	$21,000	Determined by insurance company	Permanent	Steve Morris

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Initiative	Description	Date of Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
Cyber Vulnerability Assessment	Investigated additional consultants and constrained scope to minimum required. Were able to decrease cost to approximately $25,000 (original budget was $100,000). Due to timing of engagement spanning year-end, separately invoiced for work done in 2015 ($12,000) and 2016 ($13,000).	2015	$75,000	Based on the actual cost vs. budget. Budget number was based on historical costs of previous cyber vulnerability assessments.	One-Time	Steve Morris
Disaster Recovery Test	Decided not to perform in 2015 an offsite disaster recovery test that was budgeted for in 2015	2015	$40,000	This is a 2015 O&M Budget item that was based on an estimate of what it would cost to rent equipment at a recovery center. Based on previous off-site tests of Mainframe and Open Systems testing.	One-Time	Steve Morris
Ethnography Study	An ethnography study shows how the company pays its bills. Part of the study resulted in a push to get higher rebates for the company's credit cards. Higher rebates were obtained by pooling MP spend with that of subsidiaries. An RFP was also conducted to switch credit card providers. Another part of the study resulted in a push to automate payments and phase out check printing. Some payments are being switched from checks to electronic payments which results in lower transaction costs. Some vendors are signing up for a virtual card payment option. The Company will earn a rebate on any virtual card spend similar to the rebate on credit card spend.	Study completed 2015; implementation beginning 2016.	Additional rebate is approximately $70,000 annually based on historical credit card spend. Approximately $300,000 annually on electronic payment options (transaction cost savings and rebate on virtual card spend)	Rebate is based on historical spend amounts using the higher rebated percentage. Savings on electronic payment options was calculated by our credit card provider.	Permanent	Steve Morris

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Initiative	Description	Date of Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
Excess Liability Costs	Assume a higher deductible to reduce costs. Increased deductible from $1 million to $2 million based on analysis of risk tolerance for the company as well as estimated savings.	Nov-10	$150,000	Underwriter for policy determined cost savings	Permanent	Steve Morris
Extended replacement cycle on desktops/laptops	Extended from 4 years to 5 years	2016	$300,000	Savings in 2015 as only non-functioning machines were replaced. Going forward recurring reduced annual costs as only 20% of machines are replaced instead of 25%	One-Time	Steve Morris
Property Insurance	The insurance company (FM Global) has been able to offer membership credits over the last several years. These are based on the size and types of claims that occur each year for FM Global. If the number of claims are low and smaller than the company forecasts to happen in a year, then a surplus results and the savings can be given to its members	Nov-13	$400,000 to $600,000 each year	Based on insurance company's premium surplus	One-Time	Steve Morris
Property Insurance	Insure Taconite Harbor for actual cash values rather than full replacement cost due to idling and future shutdown of facility	Nov-16	$200,019	50% reduction in premium due to a 50% reduction in replacement cost values by going to actual cash value	Permanent	Steve Morris
Property Insurance	Revise replacement cost value for Boswell. Value was reviewed 10 years ago and agreed upon with insurance company. Since that time market indexes were used to adjust for inflation and caused values to be higher than comparable insurance market valuations. Cost of insurance reduced based on reduced replacement cost.	Nov-16	$499,719	Insurance value was decreased by $534 million resulting in a cost savings of almost $500,000	Permanent	Steve Morris

**Note that this list includes those items the Company could reliably quantify per the Commission's Order Point. Testimony addresses additional cost reductions efforts.*

Minnesota Power Summary of Quantifiable Cost Controls and Savings

Docket No. E015/GR-09-1151 Commission Order dated 11/2/2010, page 71, Order Point 15:

"Include testimony about efforts to control costs, including list of cost reductions made, identification of which cost reductions are permanent, and quantification of total cost savings."

Initiative	Description	Date of Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
Reduce Application Portfolio	Dropped annual maintenance on Open Pages, Documentum, Treehouse Relational, Service Desk Express, Latitude Technologies OuickTarriff, GridGuardian, Aspen Relay DB, Aspen Oneliner	2015	$93,500	Based on actual dollars saved by no longer paying annual maintenance on software packages 35,000, 20,000, 15,000, 10,000, 5,000, 5,000, 2,000, 1,500	Permanent	Steve Morris
Reduce Gartner Subscription	Dropped Burton information service for ALLETE; Reduced number of manager seats from 4 to 3	Mar-15	$50,000	Difference between 2014 and 2016 invoices	Permanent	Steve Morris
Strategic Sourcing Initiative	The following categories were sourced using a strategic sourcing and bidding process: Chemicals Vegetation Management Facilities Services IT/Telecom Office Supplies MRO & Services Travel	2011	$3.52 million (annual total); Chemicals ($0.75M), Vegetation Management ($0.95M), Facilities Services ($1.7M), IT/Telecom ($0.1M), Office Supplies ($0.05M), MRO & Services ($1.5M), Travel ($0.05M)	Cost savings estimated by consultant Deloitte.	Permanent	Steve Morris
Sustainable Performance Initiative	Purchasing partnered with Operations to identify procurement cost savings opportunities. Certain contracts were targeted to be re-bid or re-negotiated based on perceived cost savings opportunities identified by either Purchasing or the Operating Area.	2015	Total Savings of $747,500 as of July 31, 2016 (Commodities - $516,100; Construction and Services - $231,400)	Cost savings based on contract price versus savings from re-negotation.	Permanent	Steve Morris
Tools for Application Developer Maintenance	Dropped annual maintenance on DBA & Developer SQL Tool(s)	2015	$15,000	Based on historical budgeted budgeted amount in the 2015 O&M Budget. The estimate includes an assumption of a cost increase from the previous year.	Permanent	Steve Morris

**Note that this list includes those items the Company could reliably quantify per the Commission's Order Point. Testimony addresses additional cost reductions efforts.*

Minnesota Power Summary of Quantifiable Cost Controls and Savings

Docket No. E015/GR-09-1151 Commission Order dated 11/2/2010, page 71, Order Point 15:

"Include testimony about efforts to control costs, including list of cost reductions made, identification of which cost reductions are permanent, and quantification of total cost savings."

Initiative	Description	Date of Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony
Verizon Cellular Contract Re-negotiation	Re-negotiated contract to obtain a price reduction	2014	$50,000	Re-negotiation of billing structure	Permanent	Steve Morris

**Note that this list includes those items the Company could reliably quantify per the Commission's Order Point. Testimony addresses additional cost reductions efforts.*

Minnesota Power Summary of Cost Control Efforts

MPUC Order Point:

Include testimony about efforts to control costs, including list of cost reductions made, identification of which cost reductions are permanent, and quantification of total cost savings.

Docket No. E015/GR-09-1151 Commission Order dated 11/2/2010, page 71, Order Point 15

Initiative	Description	Action Taken	Savings Estimate	Basis for Estimate	Temporary, One-Time, or Permanent?	Witness Testimony	Information / Source
Engineering and Customer Service	Continuing to tweak the GL spec to reduce it to the basics of pole inspection rather than gathering additional data as done before		$150,000	Cost reduction of approximately 2.5%		Chris Fleege?	Dan Gunderson
Fleet Costs	Consolidated tire spend to 1 vendor		$8,000		Permanent	Chris Fleege?	Dan Gunderson
Fleet Costs	Vendor changes (warranty, welding, winch ropes, filters)		$15,0000 annually		Permanent	Chris Fleege?	Dan Gunderson
Oracle Database Hosting Server Consolidation	Consolidated hosting of non-control system Oracle Databases onto a single server architecture and operating system				Permanent	Chris Fleege?	Ken Voss
WebLogic Hosting Server Consolidation	Consolidated hosting of WebLogic Java Applications onto a single server architecture and operating system				Permanent	Chris Fleege?	Ken Voss

Employee Expense and Cost Control
Years 2011-2015
Amounts in Thousands

	2015	Average 2011-2014	Variance Amount	Variance Percent	2014	2013	2012	2011
Employee Expense - Meals	542	629	(87)	(13.8)%	680	743	677	415
Employee Expense - Other	144	348	(204)	(58.7)%	196	171	181	845
Educational Expense	333	673	(340)	(50.5)%	634	554	592	910
Lodging *	534	730	(196)	(26.8)%	793	740	657	n/a *
Vehicle Use - Personal/Leased	678	875	(197)	(22.5)%	779	838	1007	875
Vehicle Use - Commercial Airfare, Rental Car, Taxi, etc.	394	572	(178)	(31.1)%	606	540	611	530
Aircraft Use	426	482	(56)	(11.6)%	506	455	518	448
Employee Expense	3,051	4,308	(1,257)	(29.2)%	4,194	4,041	4,243	4,023

*Lodging was not individually tracked until 2012

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December 10, 2012

VIA ELECTRONIC FILING

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: COMPLIANCE FILING
In the Matter of the Petition of Minnesota Power for Approval of Asset Separation and Accounting Methodology
Docket No. E015/M-01-1416

Minnesota Power's Petition for Approval of Affiliated Interests Between ALLETE and ALLETE Clean Energy
Docket No: E015/AI-11-868

Dear Dr. Haar:

The August 8, 2002 Order in the above-referenced Accounting Methodology Docket directs Minnesota Power to annually update the Department of Commerce, Commission Staff and Office of Attorney General of changes to Minnesota Power's allocation process, including allocation methods and percentages, as originally provided in the Docket. In compliance with that Order, Minnesota Power provides the following information for 2012:

i) Exhibit A – Revised Chart of Accounts
ii) Exhibit B – 2012 Allocation Process Concepts
iii) Exhibit C – Key Changes to 2012 Allocations
iv) Exhibit D – 2012 Allocation Spreadsheet Headings
v) Exhibit E – 2012 Budget Allocation Matrix by Special and Method
vi) Exhibit F – Allocation Methods for 2012, and
vii) Exhibit G – ALLETE Clean Energy Compliance (ACE)

As noted in this Accounting Methodology Docket in the original filing and in the annual compliance filings, Minnesota Power's allocation process is annually reviewed and updated during the budget process and may be updated periodically for any significant changes during the year as necessary. During this allocation review process, allocation method percentages may change; a "Special" segment (formally activity) may be assigned a different existing allocation method; a new allocation method may be established; and an allocation method may be eliminated or replaced by a new or different method.

In this most recent annual review, Minnesota Power revised its chart of accounts (COA) effective January 1, 2012. Minnesota Power's previous COA had been in place since 1998 and was developed primarily to prepare for a de-regulated utility business model. As previously structured, the COA intended to provide information centering on functional utility Lines of Business (i.e. Generation, Transmission and Distribution) and Activities, while continuing to maintain the detail of standard departmental costs for cost control and regulatory purposes. The functional cost assignment of the previous COA provided more detail and accuracy than merely using the FERC Uniform System of Accounts for tracking utility business functions while still remaining in compliance with FERC and Commission accounting rules and regulations. The previous COA was made up of nine primary (plus placeholders for three to-be-determined) segments. The 2012 revision found some of these segments were no longer necessary or useful. This previous COA would have been beneficial in tracking costs in a "de-regulated" environment.

Minnesota Power's revised COA has been implemented to better fit the needs of a vertically integrated utility and to enhance Minnesota Power's regulatory reporting processes. The revised COA simply and directly maintains the requirements of the FERC Uniform System of Accounts by making minor changes to the COA. Key differences between the previous COA and the current COA are described in Exhibit A. The most important revision is that the revised COA includes a FERC account segment; the previous COA did not. In the previous COA, the account numbers for assets, liabilities, revenues and certain other operating expenses utilized standard FERC accounts. However, FERC account data for Operating & Maintenance expenses was captured by "mapping" combinations of several other segments of the COA to the proper FERC accounts. The mapping process was established to follow and maintain the requirements of the FERC Uniform System of Accounts.This was a contentious issue in the review of Minnesota Power's initial filing in this Docket; although the mapping process has worked out as projected since the initial filing, the revision eliminates the major concern with Minnesota Power's process.

In the revised COA, all transactions are recorded directly to the proper FERC account which now more simply and directly maintains the requirements of the FERC Uniform System of Accounts and remains compliant with FERC and Commission accounting rules and regulations. The revised COA also remains consistent with the methodology approved in Docket No. E015/M-01-1416, Asset Separation and Accounting Methodology.

Finally, Exhibit G is being provided in compliance with the July 23, 2012 Order in Docket E015/AI-11-868 related to Minnesota Power's affiliate agreements with ALLETE Clean Energy (ACE). Per Order Point 2 of that Docket, Minnesota Power has been ordered to make an annual compliance filing in Docket No. 01-1416 that indicates how costs are being charged and allocated to ACE. Note that this filing contemplates how charges were anticipated to be charged, and future filings will also include actual past charges.

Please contact me at the number or email address above if you have any questions regarding this compliance filing.

Yours truly,

Christopher D. Anderson

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Attachments
c: Service List

Revised Chart of Accounts (COA) **EXHIBIT A**

Effective January 1, 2012, Minnesota Power revised its chart of accounts (COA).

Minnesota Power's previous COA had been in place since 1998. The previous COA was put in place primarily to prepare for a potentially de-regulated electric market. As structured the COA intended to provide information centering on functional utility Lines of Business (i.e. Generation, Transmission and Distribution) and Activities while continuing to maintain the detail of standard departmental costs for cost control and regulatory purposes. The functional cost assignment of the previous COA provided more detail than merely using the FERC Uniform System of Accounts for tracking utility business functions while still remaining in compliance with FERC and Commission accounting rules and regulations. The previous COA was made up of nine (plus placeholders for 3 TBD) segments, some of which were no longer necessary or useful.

Minnesota Power's revised COA has been implemented to better fit the needs of a vertically integrated utility and to enhance Minnesota Power's regulatory reporting processes. It remains compliant with FERC and Commission accounting rules and regulations. The revised COA is made up of seven segments (plus 2 TBD if necessary), and – most importantly – ties directly to the FERC Uniform System of Accounts. The revised account structure is reflected on page 2 of Exhibit A.

Key differences between the previous COA and the current COA are:

1. The previous COA included a Line of Business (LOB) segment; the revised COA does not (intended use was to unbundle costs by regulated operating function).
2. The previous COA included a Product segment; the revised COA does not (intended use was to capture costs by product line, primarily for former subsidiaries).
3. The previous COA included a Customer segment; the revised COA does not (intended use was to capture costs by customer or customer grouping).
4. The previous COA included an Activity segment; the revised COA does not (intended use was to capture process costs by department and operating function).

While the above segments of the previous COA were anticipated to provide improved information for managing the business, they proved to be more than what MP needed in a continued regulated environment.

5. The revised COA includes a FERC account segment; the previous COA did not.

In the previous COA, the account numbers for assets, liabilities, revenues and certain other operating expenses utilized standard FERC accounts. However, FERC account data for Operating & Maintenance expenses was captured by "mapping" combinations of several other segments of the COA to the proper FERC accounts. The mapping process was established to follow and maintain the requirements of the FERC Uniform System of Accounts.

In the revised COA, all transactions are recorded directly to the proper FERC account which now more simply and directly maintains the requirements of the FERC Uniform System of Accounts.

6. The revised COA includes a "Special" segment; the previous COA did not. The "Special" segment was established to capture general and administrative support and corporate costs that need to be allocated to non-regulated activities or subsidiaries (see Exhibit B). In the previous COA, the activity segment was utilized to allocate such costs.

Revised Chart of Accounts (COA) **EXHIBIT A**

The following is the Chart of Accounts (COA) Minnesota Power implemented in 2012:

New Chart of Accounts
Segment Values

Company	Responsibility Center	FERC Account	Sub-Account	Cost Type	Location	Special	TBD1	TBD2
000	0000	00000	0000	0000	0000	0000	00000	0000
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

(1) Company is a legal entity.
(2) Responsibility center is a department identifier.
(3) FERC account, as established by FERC Uniform System of Accounts.
(4) Sub-account is a further breakdown of a FERC account.
(5) Cost type specifies the nature or composition of the expenditure (contract, material, labor, meals, vehicle use, etc.).
(6) Location is used to identify generating unit, facility, or geographical location. It is also used to capture subsidiary costs.
(7) Special is used to directly assign or allocate corporate or support service costs to non-regulated activities and subsidiaries.
(8) TBD1 – “to be determined”; intended for future use should a need be determined.
(9) TBD2 – “to be determined”; intended for future use should a need be determined.

ALLETE / Minnesota Power (MP's) – 2012 Allocation Process Concepts Exhibit B

Despite a revised chart of accounts (COA) Minnesota Power's cost allocation methodology remains consistent with the methodology approved in Docket No. E015/M-01-1416, Asset Separation and Accounting Methodology.

Minnesota Power believes that direct assignment of costs is always preferable to allocation. Through the COA, costs incurred specifically for ALLETE's non-regulated activities, including subsidiaries, are directly charged to a specific "location" segment. However, not all charges, primarily those related to general and administrative support, can be directly assigned as they are incurred routinely for the benefit of all or multiple areas of ALLETE, thus they need to be allocated. Minnesota Power's allocation methodology, which is designed to allocate reasonable support costs to MP's non-regulated business and ALLETE subsidiaries, follows the concepts highlighted below.

- The allocation process is intended to assign a portion of the residual charges <u>not already directly assigned</u> to a non-regulated activity or a subsidiary.

- MP's costs to be allocated to non-regulated activities or subsidiaries are captured by the Special segment. (Generally, corporate or general support costs. See Exhibit C).

- Costs charged to the Special segment use location 0000 and create cost pools to be used in the allocation process with each cost pool assigned a specific allocation method.

- The allocation methods established utilize available data.

- Allocation methods are <u>reviewed and updated annually</u> during the budget process and may be updated periodically for any significant changes during a calendar year, e.g. organizational changes may impact the headcount basis or the budget dollar basis or what entities should or shouldn't be allocated costs.

- The allocated Special segment cost pools are also reviewed to determine the appropriateness of the allocation method for each Special segment. If deemed necessary a Special segment may change allocation methods. This could occur if the work effort e.g., who's charging to it, what work they are doing, why they are doing it, changes significantly. Or a new allocation method could have been established that is deemed a better fit.

- New Special segments are reviewed and assigned a method at the time of its establishment.

- An allocation method may be established, used and then eliminated if a new or different method is available and deemed more appropriate for use, or if no longer needed.

- New methods may be established and utilized if a more applicable basis can be determined and the necessary data maintained.

KEY CHANGES TO 2012 ALLOCATIONS **EXHIBIT C**

1. Basic allocation bases were updated (e.g., headcount, budget numbers, desktops).

2. Eliminated Activity, Product, Customer and Line of Business segments; no longer used effective 1/1/2012.

3. New Special segment, effective 1/1/2012.

Below is a listing of values included in the Special segment used for allocations:

Value	Description
	Strategic Planning
1000	Strategic Planning
1010	Board of Directors
1020	Budgeting
1030	Financial Planning
	Human Resources
1050	Employee Benefits
1060	Develop and Manage Employees
1070	Payroll Services
1080	Executive Compensation Programs
1090	Labor Relations
	Accounting/Finance
2000	General Accounting Services
2010	Tax Services
2020	Account for Property and Assets
2040	Financial Reporting
2050	Finance Services
2060	Audit Services
	Legal/Regulatory Support
2080	Legal Services
2090	Environmental Regulatory Support
	Corporate Relations/Communications
3000	General Governmental Affairs
3010	External Communications
3030	Investor Relations
	Facilities Management
3040	Facilities Management
3050	Tenant Support Services
3060	Security
3070	Design and Project Management
3080	Office Planning and Design
3090	Manage Land and Leases

KEY CHANGES TO 2012 ALLOCATIONS **EXHIBIT C**

Value	Description
	ITS
4000	Telephone Services
4010	Microwave/Operating Systems
4020	Data Services
4030	Business Information Systems
4040	Mainframe Platforms
4050	Desktop Support
4060	Record Services
4065	Mail Services
4066	Copying Services
	Purchasing
4075	Purchasing
4080	Accounts Payable
	Risk
4090	Insurance
	Other
5000	Utility Advertising

4. The following allocation methods were eliminated in 2012 because of the revised COA. They were allocated solely to Minnesota Power's regulated Lines of Businesses, which as a segment no longer exists.

ALLOC01
ALLOC03
ALLOC04
ALLOC05
ALLOC06
ALLOC22
ALLOC23

5. The following allocation methods were eliminated in 2012 because they were replaced with a different process:

ALLOC29 (replaced with Property A&G overhead process in Powerplant system)
ALLOC37 (replaced with Inventory overhead process in Powerplant system)

6. The following allocations were eliminated because they were either duplicative or No longer needed. No Special segment required it.

ALLOC19
ALLOC30
ALLOC31
ITS04
ITS12

7. ALLETE Clean Energy (ACE) was added as a non-regulated subsidiary in the allocation matrix (see Exhibit G).

2012 ALLOCATION SPREADSHEET HEADINGS **EXHIBIT D**

Special Segment Code

General Ledger code by which costs are accumulated for a specific special segment. Special segment costs accumulated with a "0000" location are to be allocated.

Special Segment Description

Description of the Special segment cost pool being allocated.

Allocation Method

Identification of the allocation method being used for the assigned Special segments.

These are merely generic numeric identifiers for the allocation methods.

Entities Being Allocated to:

	Abbreviation	Description
MP:		Minnesota Power
	Non-Regulated	Captures the costs associated with MP's non-regulated efforts i.e.; FSO's, Land Sales, Facility Rentals, Rapids Energy Center.
Subsidiaries:		
	SWL&P	Superior Water Light & Power
	BNI	BNI Coal
	RR – Wisc.	Rainy River – Wisconsin
	MP Ent	MP Enterprises: Parent subsidiary of other MP non-regulated subsidiaries.
	ACE	ALLETE Clean Energy
	Real Estate	ALLETE Properties

Exhibit E

2012 Budget Allocations By Special

Special Segment Code	Special Segment Description	Allocation Method	MP Non-Reg.	Subsidiaries SWLP %	BNI %	RR Wisc. %	MP Ent %	ACE %	Real Estate %	Total Allocated
1000	Strategic Planning	ALLOC25	0.6	1.6	1.4				3.7	7.3
1010	Board of Directors	ALLOC12	0.0	3.0	2.6	6.4	0.5		6.8	19.3
1020	Budgeting	ALLOC24	1.1	3.9						5.0
1030	Financial Planning	ALLOC25	0.6	1.6	1.4				3.7	7.3
1050	Employee Benefits	HEADCT2	5.4	7.9				0.4		13.7
1060	Develop & Manage Employees	HEADCT5	5.8							5.8
1070	Payroll Services	HEADCT2	5.4	7.9				0.4		13.7
1080	Executive Comp Programs	ALLOC33	1.6	2.8	5.6			2.7		12.7
1090	Labor Relations	HEADCT6	5.8	10.3						16.1
2000	General Accounting Services	ALLOC27	4.6							4.6
2010	Tax Services	ALLOC25	0.6	1.6	1.4				3.7	7.3
2020	Account for Property & Assets	ALLOC14	2.7							2.7
2040	Financial Reporting	ALLOC25	0.6	1.6	1.4				3.7	7.3
2050	Finance Services	ALLOC25	0.6	1.6	1.4				3.7	7.3
2060	Audit Services	ALLOC08	15.0	2.0	2.0					19.0
2080	Legal Services	ALLOC25	0.6	1.6	1.4				3.7	7.3
2090	Environmental Regulatory Support	ALLOC24	1.1	3.9						5.0
3000	General Governmental Affairs	ALLOC28	2.5				2.5			5.0
3010	External Communications	ALLOC25	0.6	1.6	1.4				3.7	7.3
3030	Investor Relations	ALLOC12	0.0	3.0	2.6	6.4	0.5		6.8	19.3
3040	Facilities Management	ALLOC28	2.5				2.5			5.0
3050	Tenant Support Services	ALLOC28	2.5				2.5			5.0
3060	Security	HEADCT5	5.8							5.8
3070	Design and Project Management	ALLOC14	2.7							2.7
3080	Office Planning and Design	HEADCT5	5.8							5.8
3090	Manage Land and Leases	ALLOC36	23.4							23.4
4000	Telephone Services	HEADCT5	5.8							5.8
4010	Microwave/Operating Systems	ITS02	1.0	2.0						3.0
4020	Data Services	ITS07	2.3	7.5				0.5		10.3
4030	Business Information Systems	ITS10	5.4	7.9				0.4		13.7
4040	Mainframe Platforms	ITS06	0.0	24.1						24.1
4050	Desktop Support	ITS05	2.5							2.5
4060	Record Services	ITS08	5.6	4.9				0.2		10.7
4065	Mail Services	ITS08	5.6	4.9				0.2		10.7
4066	Copying Services	ITS01	5.8							5.8
4075	Purchasing	ALLOC27	4.6							4.6
4080	Accounts Payable	ALLOC27	4.6							4.6
4090	Insurance	ALLOC15	3.1	2.8	3.4			0.1	0.2	9.6
5000	Utility Advertising	ALLOC02	3.0							3.0

2012 Budget Allocations By Method

Special Segment Code	Special Segment Description	Allocation Method	MP Non-Reg.	Subsidiaries SWLP %	BNI %	RR Wisc. %	MP Ent %	ACE	Real Estate %	Total Allocated
5000	Utility Advertising	ALLOC02	3.0							3.0
2060	Audit Services	ALLOC08	15.0	2.0	2.0					19.0
1010	Board of Directors	ALLOC12	0.0	3.0	2.6	6.4	0.5		6.8	19.3
3030	Investor Relations	ALLOC12	0.0	3.0	2.6	6.4	0.5		6.8	19.3
2020	Account for Property & Assets	ALLOC14	2.7							2.7
3070	Design and Project Management	ALLOC14	2.7							2.7
4090	Insurance	ALLOC15	3.1	2.8	3.4			0.1	0.2	9.6
1020	Budgeting	ALLOC24	1.1	3.9						5.0
2090	Environmental Regulatory Support	ALLOC24	1.1	3.9						5.0
1000	Strategic Planning	ALLOC25	0.6	1.6	1.4				3.7	7.3
1030	Financial Planning	ALLOC25	0.6	1.6	1.4				3.7	7.3
2010	Tax Services	ALLOC25	0.6	1.6	1.4				3.7	7.3
2040	Financial Reporting	ALLOC25	0.6	1.6	1.4				3.7	7.3
2050	Finance Services	ALLOC25	0.6	1.6	1.4				3.7	7.3
3010	External Communications	ALLOC25	0.6	1.6	1.4				3.7	7.3
2080	Legal Services	ALLOC25	0.6	1.6	1.4				3.7	7.3
2000	General Accounting Services	ALLOC27	4.6							4.6
4075	Purchasing	ALLOC27	4.6							4.6
4080	Accounts Payable	ALLOC27	4.6							4.6
3000	General Governmental Affairs	ALLOC28	2.5				2.5			5.0
3040	Facilities Management	ALLOC28	2.5				2.5			5.0
3050	Tenant Support Services	ALLOC28	2.5				2.5			5.0
1080	Executive Comp Programs	ALLOC33	1.6	2.8	5.6			2.7		12.7
3090	Manage Land and Leases	ALLOC36	23.4							23.4
1050	Employee Benefits	HEADCT2	5.4	7.9				0.4		13.7
1070	Payroll Services	HEADCT2	5.4	7.9				0.4		13.7
1060	Develop & Manage Employees	HEADCT5	5.8							5.8
3060	Security	HEADCT5	5.8							5.8
3080	Office Planning and Design	HEADCT5	5.8							5.8
4000	Telephone Services	HEADCT5	5.8							5.8
1090	Labor Relations	HEADCT6	5.8	10.3						16.1
4066	Copying Services	ITS01	5.8							5.8
4010	Microwave/Operating Systems	ITS02	1.0	2.0						3.0
4050	Desktop Support	ITS05	2.5							2.5
4040	Mainframe Platforms	ITS06	0.0	24.1						24.1
4020	Data Services	ITS07	2.3	7.5				0.5		10.3
4060	Record Services	ITS08	5.6	4.9				0.2		10.7
4065	Mail Services	ITS08	5.6	4.9				0.2		10.7
4030	Business Information Systems	ITS10	5.4	7.9				0.4		13.7

ALLOCATION METHODS for 2012

Allocation Method	Description of Allocation Method
ALLOC02	This allocation method is used solely for Special Segment #5000 – Utility Advertising. This method pertains to Minnesota Power community or business operations in Northern Minnesota.
ALLOC08	Allocation percentages are based on the annual audit plan of ALLETE's Internal Audit Manager. Estimated audit time is the basis of the plan. The Plan is presented to and approved by the ALLETE Board of Directors on an annual basis. This allocation method is used solely for Special Segment #2060 – Audit Services.
ALLOC12	Allocation assigns Special segment costs to MP non-regulated and ALLETE's subsidiaries. Assignment is based on corporate equity in MP non-regulated and ALLETE subsidiaries entities as a percentage of ALLETE's total equity. This allocation method has limited use and is used primarily for the allocation of shareholder or investor relations-related costs and Board of Director's costs.
ALLOC14	Allocation percentages are based on a combination of annual MP construction budget dollars and the Fixed Asset assignment (ALLOC24). The intent of this method is to assign costs that are associated with MP's fixed assets. Budget amounts are taken from the most recent annual budgeted construction plan. Fixed asset balances by entity (MP and subsidiaries) are retrieved from the fixed asset system as of a given date. Fixed asset balances are for those entities that are processed by MP and contained in the MP fixed asset system.
ALLOC15	Allocation percentages are based on a combination of fixed asset balances (ALLOC24) as of a given date and the MP employee headcount (Headct2). Currently, this method is utilized solely for Special segment #4090 - Insurance. The assumption is that increases or decreases in the amount of costs to this special segment relate to physical assets or increases/decreases in the number of employees. An adjustment was made to the subsidiaries to be reflective of the fact that they pay for much of their own specific insurance.
ALLOC24	Allocation percentages are based on fixed asset balances in MP's fixed asset system as of a given date. Fixed asset balances are for those entities (MP and SWL&P) that are processed by MP and contained in the MP fixed asset system.
ALLOC25	Allocation percentages are based on a combination fixed asset balances (ALLOC24) and corporate equity. Activities that utilize this method are those that relate to all operational entities of ALLETE.
ALLOC27	Allocation percentages are based on a combination of fixed asset balances (ALLOC24) and annual budgeted dollars processed through the MP responsibility budget system which are used as an indication of the amount/value of transactions being processed for the Special segmens using this method. Percentages are adjusted to eliminate the allocation to SWL&P because the method is assigned to activities that attribute no benefit to SWL&P as SWL&P performs these activities on their own with their own staff. Assistance may be provided by MP staff upon request. This work would be direct charged and billed to SWL&P at that time.
ALLOC28	Allocation method is used for general Minnesota Power business costs. Allocation percentages are assigned between MP entities (regulated/non-regulated) and its parent subsidiaries. Percentages were assigned based on geographic, regulatory and strategic factors, such as location in relation to Duluth headquarters, planned initiatives, regulatory proceeding, etc.
ALLOC33	Allocation percentages are based on the number of participants in specific executive plans. Percentages are calculated by using the number of participants in each company business unit (MP and subsidiaries).
ALLOC36	Allocation percentages are based on fixed asset balances in MP's fixed asset system as of a given date, inclusive of non-regulated land and property assets. It was established for specific land activities. Those land activities include efforts related to MP non-utility land. This allocation method ensures that an adequate amount of costs are assigned as Non-Regulated Non-Utility
HEADCT2	Headcount allocation based on number of employees processed through Oracle payroll system, including ALLETE/MP, SWL&P, and ACE. Relates to those special segments that benefit ALLETE/MP, SWL&P, and ACE employees.
HEADCT5	Headcount allocation based on number of ALLETE/MP employees processed through Oracle payroll. SWL&P is excluded as they do not receive benefit from the assigned activities. They perform their own function.
HEADCT6	Allocation is based on the number of union employees in each MP line of business and SWL&P. Employee count is from the Oracle/HR Payroll system.

ALLOCATION METHODS for 2012

Allocation Method	Description of Allocation Method
ITS01	Allocation percentages are based on the number of ALLETE/MP employees. Sole activity assigned this method is performed at ALLETE headquarters.
ITS02	Allocation percentages are based on the estimated usage of the Energy Management System (EMS). Provided by ITS Department.
ITS05	Allocation percentages are based on the number of desktops supported by the ITS department. No assignments are made to any subsidiaries as work done for them is direct charged and billed to the specific subsidiary.
ITS06	Allocation percentages are based on the number of active service agreements in the Customer Information System (CIS). CIS is the only mainframe application. MP and SWL&P both utilize the CIS platform.
ITS07	Allocation percentages are based on the number of desktops supported by the ITS Department. Includes assignment to SWL&P due to the geographic relationship to ALLETE headquarters resulting in accessibility to support.
ITS08	Allocation percentages are based on the number of employees processed through the ALLETE/MP payroll system. Percentages are adjusted for SWL&P due to its general self-sufficiency for the activities that utilize these methods.
ITS10	Allocation percentages are based on the number of employees processed through the ALLETE/MP payroll system.

ALLETE Clean Energy Compliance (ACE) Exhibit G

In Docket E015/M-11-868, Minnesota Power has been ordered to provide an annual compliance filing that indicates how costs are being charged and allocated to ALLETE Clean Energy (ACE).

Any services provided to ACE will be in accordance with the procedures set forth in the Minnesota Power Cost Allocation and Accounting Methodology Docket, Docket No. E-015/M-01-1416 (ASAM). Thus, Minnesota Power recommended and was authorized to comply with the above requirement in its required annual ASAM cost allocation update.

Cost Assignment to ACE

ALLETE Clean Energy will receive various corporate shared services, including legal, accounting, human resources, finance, risk management, travel and information technology, corporate communications and field and maintenance services. These shared services will be directly charged.

ACE will also be charged with some general allocation of certain corporate costs. Cost allocations to ACE include costs for administration of payroll, benefits and executive compensation, facilities management, and general data services, i.e. mail services, record services. Allocations of these costs are in accordance with both the ASAM docket as well as the Administrative Services Agreement between MP Enterprises and ACE. (All costs will be fully overheaded) Corporate allocations are reviewed and updated annually. Detail for the allocations for 2012 is included in this immediate filing. See Exhibits D, E and F.

Exhibit D	2012 Allocation Spreadsheet Headings
Exhibit E	2012 Budget Allocation Matrix
Exhibit F	2012 Allocation Methods

The lease agreement between ALLETE Clean Energy and ALLETE for separate office space within the General Office Building at 30 West Superior Street in Duluth, Minnesota was approved. ACE will pay ALLETE $1,854 per month. Future renewals of this lease are subject to competitive bidding and regulatory review per the Order in Docket E015/M-11-868.

There are other specific services that may be provided by Minnesota Power that will be unique to ACE which could include transmission scheduling and risk management, in accordance with FERC's affiliate requirements. This could include transmission scheduling services and processing transmission service based on anticipated wind deliveries. If these services are provided to ACE, they will be directly charged to ACE.

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

Kristie Lindstrom of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 10th day of December, 2012, she served Minnesota Power's Compliance Filing in Docket Nos. E015/M-01-1416 and E015/AI-11-868 to the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing.

/s/ Kristie Lindstrom

____

Subscribed and sworn to before
me this 10th day of December, 2012.

/s/ Sheryl A Miskowski

____

Notary Public - Minnesota
My Commission Expires Jan. 31, 2015

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_1-1416_1
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_1-1416_1
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_1-1416_1
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_1-1416_1
John	Lindell	agorud.ecf@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_1-1416_1
Craig	Poorker	cpoorker@grenergy.com	Great River Energy	12300 Elm Creek Boulevard Maple Grove, MN 55369	Paper Service	No	OFF_SL_1-1416_1

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_11-868_Official
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	No	OFF_SL_11-868_Official
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_11-868_Official
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_11-868_Official
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No	OFF_SL_11-868_Official
Herbert	Minke	hminke@mnpower.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Paper Service	No	OFF_SL_11-868_Official

Investor Relations Costs in Regulated Expense

	2017 Test Year
Labor and Overheads	$327,503
Meals	7,629
Registration/Fees	4,024
Lodging	20,725
Travel	22,523
Dues and Subscriptions	3,873
Professional Services	262,046
Materials	9,887
Rental Expense	24,359
Office Supplies/Postage	54,792
Cell Phone	346
Licenses, Ins, Permits	137
Total	737,844
Percentage Requested in Rate Recovery	50%
2017 Adjustment - Total Company	$368,922

Board of Directors Costs in Regulated Expense

	2017 Test Year
Board of Directors Compensation	$891,791
Board of Directors Expense Reimbusements	60,341
Total Board of Directors Expenses Allocated to Minnesota Power	952,132
Less: Adjustment for Board of Directors Expense Reimbursements	(60,341)
Portion of Board of Directors Costs requested in Rate Recovery - Total Company	$891,791

Expenses Less Purchased Goods Allocator Calculation

2015 Actual
(in thousands)

	Consolidated	**Minnesota Power Regulated**
Calculation excluding Depreciation, Amortization, Property and Other Taxes		
O&M	$333,548	$221,232
Less: Payroll tax		(6,122)
O&M -Trans Svcs	54,114	54,114
	387,662	269,224
Eliminations	1,839	
Addback Costs Allocated out of Actuals		5,269
Less: Payroll Tax on Allocated Costs		(152)
Total Expense	$389,501	$274,341
Percent of Total - Allocator	100.0%	**70.4%**

	Consolidated	Minnesota Power Regulated
Calculation including Depreciation, Amortization, Property and Other Taxes		
O&M	$333,548	$221,232
Less: Payroll tax		(6,122)
O&M -Trans Svcs	54,114	54,114
Depreciation and Amortization	169,950	130,819
Property and Other Taxes	51,414	37,081
Total Operating Expense less Fuel and Purchased Power	609,026	437,124
Eliminations	1,839	
Addback Costs Allocated out of Actuals		5,269
Less: Payroll Tax on Allocated Costs		(152)
Total Expense	$610,865	$442,241
Percent of Total - Allocator	100.0%	**72.4%**

Corporate Equity Allocator in Use **68.7%**

Corporate Credit Card and Employee Expense Reporting Policy & Procedure Manual

March 2015

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Corporate Credit Card

PART II
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PART I

CORPORATE CREDIT CARD

PROGRAM POLICY

All employees who travel on Company business and/or are authorized to make minor purchases for Company business may be issued a Corporate credit card. They must, however, have supervisory approval, complete the Request for New Account Form (Form 4969), sign the Corporate Credit Card Agreement (Form 6218) and complete the required expense training in Oracle Learner Self-Service. Accepting the Corporate credit card and signing the agreement requires compliance with the guidelines and procedures contained in this policy and procedure manual. Failure to comply with the published guidelines and procedures may result in disciplinary action, up to and including termination of employment.

PROGRAM OBJECTIVES

Employees are strongly encouraged to use the Corporate credit card whenever possible and appropriate. Key benefits to the Company of employees using the Corporate credit card include improved cost control and monitoring, elimination of costly processing for small dollar invoices and the receipt of Company rebates/credits from the credit card vendor. If used properly, the key benefits to employees of using the Corporate credit card include convenience, security and flexibility.

PROGRAM CONTACTS

Program Coordinator/Card Program Administrator – Brenda Jahr – Ext. 3487 – Primary contact for cardholders; providing customer service and account maintenance.

Card Program Administrator – Brenda Jahr – Ext. 3487
Card Program Administrator (Back-up) - Jaime Marcus – Ext. 3225

Program Manager – Diana McFadden – Ext. 3065

Bank of America Merrill Lynch Customer Service – 1-888-449-2273 – Cardholder customer service 24/7 – reporting lost or stolen cards, reporting disputed items.

HOW TO OBTAIN A CORPORATE CREDIT CARD

An employee's immediate supervisor completes and signs the Request for New Account Form 4969; the supervisor and the employee complete and sign the Corporate Credit Card Agreement Form 6218. Both forms are available at the Forms link on the Company's Intranet page. Forward both forms to the program coordinator in Purchasing. The employee completes the required Expense Training in Oracle Learner Self-Service.

When the new card is received, the employee follows the activation instructions on the card to activate the new account.

TARGETED and RESTRICTED TRANSACTIONS

Employees ***should use*** their Corporate credit card for the following items:

- ➢ Business travel expenses
  - ✓ Commercial air travel
  - ✓ Transportation (taxi, shuttle, etc)
  - ✓ Enterprise rental vehicles
  - ✓ Parking fees
  - ✓ Lodging and associated expenses
- ➢ Business meals
- ➢ Conference, seminar, class registration
- ➢ Books
- ➢ Dues and subscriptions
- ➢ Work clothing (safety boots, flame-retardant clothing)
- ➢ Miscellaneous small dollar material purchases

NOTE: This list may not be all-inclusive.
Questions on appropriate uses should be directed to Purchasing or Accounts Payable.

Employees ***should NOT use*** their Corporate credit card for the following items:

- Personal charges
- Cash advances
- Gift cards (purchase through MPECU using Form 6151)
- Gift certificates (purchase through MPECU using Form 6151)
- Contract or professional services
- Inventory items (Stores)
- IT hardware and software (including cell phones, monitors, scanners, video conferencing equipment, digital cameras – use Form 6087-Request for Technology)
- Purchases over $3,000 (Purchases >$3,000 require a purchase requisition) Vice president approval is required when requesting a temporary single transaction limit

increase greater than $3,000 for a purchase that would normally require the competitive bidding process. Vice president approval is not required for training/conference registrations, and the single transaction limit does not affect travel-related transactions as there is no limit on travel-related transactions.

- Single item purchases greater than single transaction limit. Cardholders ***may not*** split purchases to avoid their single transaction limit.
- Medical expenses
- Political contributions

NOTE: This list may not be all-inclusive.
Questions on appropriate uses should be directed to Purchasing or Accounts Payable.

NOTE: Misuse of the Corporate credit card for unauthorized charges may result in disciplinary action up to and including termination of employment.

ACCOUNT MAINTENANCE

For account maintenance, such as name change, replacement card for a broken or damaged card, contact program coordinator or card program administrator.

REPORTING LOST or STOLEN CARDS

- Contact Bank of America Merrill Lynch Customer Service **IMMEDIATELY** – 1-888-449-2273 to report a lost or stolen card. Bank of America Merrill Lynch will record the circumstances of the loss or theft, the cardholder's name and account number. Bank of America Merrill Lynch will issue a replacement card to cardholder. Cardholder may be required to sign an Affidavit of Forgery stating the employee did not make any of the interim charges.
- Contact program coordinator or card program administrator to report the lost or stolen card.

REPORTING FRAUDULENT CHARGES

- The cardholder is held accountable for ***all*** charges on his / her Corporate credit card, and must promptly report all fraudulent charges.
- Contact Bank of America Merrill Lynch Customer Service **IMMEDIATELY** – 1-888-449-2273 to report possible fraudulent charges. Cardholder may be required to review all charges considered fraudulent and sign an Affidavit of Forgery stating the employee did not make the charges. Bank of America Merrill Lynch will issue a new card for a new account if it is determined that the existing account should be cancelled at this time.

- Contact program coordinator or card program administrator to document the report of fraud.

HANDLING A DISPUTED CHARGE

Contact merchant to attempt to resolve the disputed charge as soon as possible. If you cannot resolve the disputed charge with the merchant, contact Bank of America Merrill Lynch Customer Service – 1-888-449-2273 to report the disputed charge on the account. Bank of America Merrill Lynch will record the circumstances of the disputed charge and advise you on resolution.

STATEMENT CUT-OFF DATE / MONTHLY LIMIT REFRESHED

Statement cut-off date is the 25th of the month. Full monthly limit is refreshed on the 26th of the month.

CARDHOLDER RESPONSIBILITIES

- The Corporate credit card is the property of the Company and is to be used for Company business purposes ***only***. Any inadvertent personal charges must be reimbursed within 30 days. A personal check must be attached to the reconciliation to cover all personal charges. This is something that is closely monitored and should not happen unless you are paying for safety boots, flame-retardant clothing, personal phone calls or personal expenses related to business travel.
- The Corporate credit card is issued in the name of the cardholder and no one except that cardholder may use the card.
- Cardholder safeguards the Corporate credit card and its account number against loss or theft.
- Cardholder agrees to follow Company policy related to use of the Corporate credit card and co-signs the Corporate Credit Card Agreement with immediate supervisor to confirm agreement.
- Cardholder verifies the accuracy of each transaction.
- Cardholder identifies and resolves disputed and unauthorized charges, including immediate reporting of fraudulent charges to Bank of America Merrill Lynch.
- Cardholder completes transaction reconciliation within 30 days, documenting a valid business justification to include explanation of expenditures, dates, places / locations and names of the individuals if purchase applied to someone other than cardholder.
- Cardholder attaches ***all original receipts*** containing an itemized list of all items purchased and the total cost for all of the items purchased to the printable page. (Substitute Receipt Form 6320 must be completed, approved by supervisor and attached to the printed page for all missing receipts.)

- Cardholder submits completed reconciliation with all original receipts for all transactions attached to the printable page to supervisor for review and approval.
- Reconciliations are due within 30 days of transaction download into Oracle iExpenses. Accounts with delinquent transaction reconciliations of >60 days will be placed in suspension until all transactions have been reconciled and approved by Accounts Payable. After two suspensions, vice president approval is required for card reinstatement.
- Cardholder returns the Corporate credit card to immediate supervisor before leaving service.

NOTE: Violation of this policy may result in disciplinary action, up to and including termination of employment.

SUPERVISOR RESPONSIBILITIES

- Immediate supervisor authorizes the issuance of Corporate credit cards.
- Immediate supervisor requests adjustments to monthly and/or single transaction limits by contacting the program coordinator or card program administrator.
- Immediate supervisor ensures that cardholder does not use the Corporate credit card for personal use and that any inadvertent personal charges are reimbursed to Company within 30 days. (Exception: Personal charges for safety boots or flame-retardant clothing are allowed.)
- Immediate supervisor ensures that all Corporate credit card policies are adhered to concerning appropriate use of the Corporate credit card and co-signs the Corporate Credit Card Agreement with cardholder.
- Immediate supervisor ensures that all policies concerning the Corporate credit card reconciliation are adhered to.
- Immediate supervisor ensures that cardholder has listed a detailed valid business justification for all transactions listed on the reconciliation form.
- Immediate supervisor ensures that cardholder has attached ***all original receipts*** containing an itemized list of all items purchased and the total cost for all of the items purchased. (Substitute Receipt Form 6320 must be completed, approved by supervisor and attached to the printed page for all missing receipts.)
- Immediate supervisor reviews, approves and submits reconciliation and all original receipts to Accounts Payable for final approval.
- Beginning January 1, 2011, Accounts Payable will no longer be responsible for ensuring that all receipts are attached to credit card and expense report reconciliations. It is the supervisor’s responsibility to ensure every reconciliation is

complete and ***accurate*** before it is sent to Accounts Payable. Please carefully review each of your employees' reconciliations before you approve it.

- Immediate supervisor notifies program coordinator or card program administrator upon cardholder's termination of employment with the Company.

PURCHASING RESPONSIBILITIES AS PROGRAM COORDINATOR

- Act as liaison with card provider, Company and cardholders.
- Creates and maintains Corporate credit card manual, administration manual and administrator user guide.
- Administers the day-to-day operation of the purchasing card function.
- Performs daily maintenance of cards and database applications.
- Creates new accounts; maintains documentation files of all cardholder agreements, approvals and correspondence.
- Maintains monthly and single transaction limit adjustments to accounts.
- Responds to program inquiries; provides guidance on policies and procedures.
- Assists in account problem resolution.
- Handles security issues, such as fraud, compromised accounts and lost / stolen cards by working with the cardholder and card provider.
- Electronically monitors card activity by cardholders and business units; monitors and evaluates reports designed to maintain the integrity of the program.
- Conducts random compliance checks of card transactions to ensure cardholder compliance with program policies and procedures.
- Coordinates with internal auditors on program reviews.
- Identifies and drives future program applications / enhancements.

ACCOUNTS PAYABLE RESPONSIBILITIES

- Receives monthly summary invoice for Corporate credit card charges from Bank of America Merrill Lynch. Downloads individual transactions into iExpense for each cardholder's account.
- Processes payment to Bank of America Merrill Lynch so that it is received by the due date.
- Receives Corporate credit card receipt packets; processes final approval for payment of the expense report.

PART II

EXPENSE REPORTS

PROGRAM POLICY

Employees are encouraged to use the Corporate credit card program as much as possible; however, for those times when an employee has to use personal funds for authorized and appropriate business-related out-of-pocket expenditures, reimbursement should be requested using an expense report.

Instructions for entering a MasterCard reconciliation and/or an expense report are detailed in the **“HOW TO ENTER A MASTERCARD/EXPENSE REPORT”** guide on the Accounts Payable Intranet page under the “Other” section.

VIII. EMPLOYEE EXPENSES/RECOGNITION/VEHICLE USE

SUMMARY

This Employee Expense Policy is to ensure that expenses are prudent, reasonable and for the safe and efficient conduct of business. Reasonable expenses are business-related and based on sound business judgment. Employees must provide a detailed business purpose, submit original itemized receipts for all expenses and receive supervisory approval.

EMPLOYEE EXPENSE OVERVIEW

Employees may incur reasonable business-related expenses that are chargeable to the Company or reimbursed upon appropriate supervisory approval. Employees are expected to use sound business judgment and plan travel and other business-related expenses to minimize costs. Most of these costs should be charged on the employee's corporate credit card. Other small out-of-pocket expenditures may be reimbursed through the use of expense reports. Infrequently, expenditures may be paid for via vendor invoices. Invoices must contain the appropriate work order, cost type, and business purpose prior to appropriate supervisory approval.

The policies included below and the procedures included in the Corporate Credit Card and Employee Expense Policies & Procedures Manual must be followed carefully to ensure compliance with Generally Accepted Accounting Principles (GAAP), Internal Revenue Service (IRS), other government regulations and regulatory requirements, as well as, to maintain good controls to safeguard Company assets (cash and credit cards) against loss from unauthorized use. This manual can be found on the intranet site under Policies, Procedures & Manuals.

RATEPAYER IMPACT

A significant portion of ALLETE consists of regulated utility operations. As such, both Minnesota Power and Superior Water Light & Power are subject to regulatory review to ensure that the utility rates they charge their customers are reasonable and deemed necessary for the provision of utility service. Thus the impacts on Minnesota and Wisconsin ratepayers should always be considered when incurring and charging an expense.

Expenses incurred while working on regulated operations (such as Minnesota Power, Superior Water Light & Power) should be charged to a regulated work order. Expenses incurred while working on non-regulated operations (such as BNI Coal, ALLETE Properties, non-regulated business development) should be charged to a non-regulated work order. The Company has also determined that entertainment expenses will not be charged to ratepayers (as specified in Entertainment Events and Meals below); therefore, the correct cost type and a non-regulated work order must be used for all costs associated with entertainment expenses. *Contact Accounting with questions on the proper use of accounts.*

CORPORATE CREDIT CARD

All ALLETE employees who travel on Company business and/or are authorized to make minor purchases for Company business may be issued a corporate credit card. They must, however, have supervisory approval, complete the Request for New Account Form (Form 4969) or ALLETE Clean Energy (Form 4969a), sign the Minnesota Power Corporate Credit Card Agreement (Form 6218) or ALLETE Clean Energy Corporate Credit Card Agreement (Form 6518a), and complete the required training. Accepting the card and signing the agreement requires compliance with the guidelines and procedures set up for the Corporate Card Program contained in the Corporate Credit Card and Employee Expense Manual and included herein. Failure to comply with the published guidelines and procedures may result in disciplinary action, up to and including termination of employment.

Employees are strongly encouraged to use the corporate credit card whenever possible and appropriate. Key benefits to ALLETE of employees using the corporate cards include improved cost control and monitoring, elimination of costly processing for small dollar invoices and the receipt of company rebates/credits from the credit card vendor. If used properly, the key benefits to employees of using the corporate card include convenience, security and flexibility. Once provided with a corporate credit card, employees are requested to submit manual employee expense report only when necessary. Contract workers and interns are not allowed to have corporate credit cards; they may seek reimbursement for expenses through an expense report.

All credit cards are issued at the request of the potential cardholder's supervisor/ department head. The next level of management (above the cardholder) establishes a single transaction dollar limit and a monthly limit for the card; however, limits must be within corporate guidelines. The single transaction dollar limits are generally set up to match the employee's needs with a maximum $3,000 with supervisory approval – which includes sales tax and shipping/handling charges (<u>exception</u>: the limit does not apply to travel expenses). Splitting transactions that are greater than the assigned limit is not allowed. If an employee is required to make a purchase that is greater than the assigned limit, he or she must notify the Purchasing Department for a one-time authorization. All purchases exceeding $3,000 require competitive bidding through Purchasing. Employees are prohibited from using the card to avoid the established competitive bidding process. Employees should review the quoting policy in the Purchasing Manual found on the intranet site under Policies, Procedures & Manuals prior to incurring an expense greater than $3,000.

A Corporate Card must be used for Company business expenses only. The credit card is issued in the name of the cardholder and no one except that cardholder may use the card. The cardholder is held accountable for all charges on his/her credit card and must promptly report all fraudulent charges. It is imperative that cardholders follow written procedures for lost, stolen or damaged credit cards. Credit card use may be audited and/or rescinded at any time.

If it is unavoidable or prudent to incur minimal personal charges on a Corporate Card, employees must reimburse the Company immediately upon receipt and reconciliation of their monthly corporate credit card statement for any personal charges they incur.

For further information on the corporate credit card policy, see the Corporate Card and Employee Expense Policy & Procedure Manual located on the intranet page under Policies, Procedures & Manuals.

EXPENSE REPORTS

Employees are encouraged to utilize the Corporate Credit Card Program as much as possible; however, for those times when an employee has to use personal funds for authorized and appropriate business-related out-of-pocket expenditures, reimbursement should be requested using an expense report. Each employee is to include only his or her expenses on an expense reimbursement statement. Supervisors may include on their expense statements, minor expenses for their employees who do not ordinarily submit an expense report.

EXPENSE ADVANCES

Cash advances for travel expenses or reimbursement of travel expense prior to the filing of an expense reimbursement statement are not allowed unless approved by the appropriate vice president.

CREDIT CARD RECONCILIATIONS/EXPENSE REPORT SUBMITTAL AND APPROVAL

Credit Card Reconciliation and Expense Report Submittal

All credit card reconciliations and expense reports must have all original valid receipts attached for all expenses when submitted to the supervisor for approval. Original valid receipts must contain an itemized list of all items purchased and the total cost for all of the items.

Credit card reconciliations are due within 30 days of statement download into Oracle iExpense. Accounts with delinquent reconciliations of >60 days will be suspended until all reconciliations, including current month, have been approved by Accounts Payable. After two suspensions, vice president approval is required for card reinstatement.

Expense reports should be processed and submitted as soon as possible after the expenses are incurred, but no later than 60 days from the date of the expense. Prompt processing ensures accurate cost reporting and efficient payment of expenses to employees.

Sufficient documentation of allowable expenditures incurred while conducting Company business must include the business purpose, dates, places/locations and persons involved. The documentation of the business purpose allows the Company to meet IRS regulations, internal control needs, and regulatory requirements for proper recording of expenditures. Mileage reimbursement must also disclose the point of departure, the destination and the total miles for each trip.

Employees must ensure that expenses are charged to the correct cost type and work order. Employees should contact their accounting representative for further information.

Lost Receipts

If a receipt is lost or not available, the employee must complete and submit Form 6320 to supervisor for approval, verifying the legitimate travel and/or business expense. This documentation then serves in place of an original receipt.

Credit Card Reconciliation and Expense Report Approval

The employee's supervisor must approve reconciliations and reimbursement for employee expenses to ensure:

- Transactions are appropriate and all company policies and procedures have been complied with.
- Employee has a detailed valid business purpose for all transactions on the form.
- The correct work orders have been assigned.
- Employee has attached all original itemized receipts for all items purchased.

After the review and approval is complete, supervisors then submit reconciliations, expense reports and all original receipts to Accounts Payable.

TRAVEL ARRANGEMENTS

Employees may need to travel for business, either occasionally or frequently. The following guidelines for Company travel advise employees of their responsibilities and the Company's expectations of them. The Company will reimburse the employee for reasonable and appropriate business expenses. Personal expenses are not recoverable.

Before booking any travel arrangements, employees must determine the business need for the trip, considering less costly alternatives such as teleconferencing or other conferencing options. Supervisory approval is required for travel and related business expenses prior to the event.

Employees should use contracted travel providers when available. Contracted travel providers are available for airlines, hotels and rental car companies and can be accessed through the travel management company Corporate Travel Solutions. All travel arrangements and reservations should be made through the travel management company to ensure use of negotiated financial benefits.

COMMERCIAL AIR TRAVEL

Corporate Travel Solutions (CTS) is contracted by ALLETE to handle all airline travel for all employees. Employees must use the company's online booking tool or travel agency services when making air travel arrangements to take advantage of negotiated financial savings and the tracking of unused or cancelled airline tickets. Declined fares and exceptions to the lowest fare are captured automatically and will be reported to the Purchasing Manager. Travel arrangement decisions should not be based on availability of upgrades, frequent flyer awards, bonus points, etc.; they should be based on lowest available fare within a reasonable timeframe and route. The travel management company is not authorized to book first-class or business-class air travel, and related expenses are not reimbursable.

Employees are responsible for making their own travel arrangements through CTS either by contacting a service agent or using their online booking tool called Cliqbook. Employees can link to CTS through the Intranet page, under Employee Center, Online Travel Services. All employees traveling will be required to complete a Traveler Profile which will include personal travel preferences and other critical information required for making reservations.

Last-minute arrangements, changes and/or cancellations should be avoided whenever possible as they substantially increase travel costs and frequently result in penalties.

Cancellation of reservations is the responsibility of the employee either directly with the airlines or by notifying CTS. Full fare airline tickets are refundable. Cancelling non-refundable airline tickets results in a credit with the airline for the traveler. CTS tracks all credits and will apply the individual credits to the employee's next trip upon request. These credits are not transferable to other employees and must generally be used within one year for business travel only.

Employees should call the following numbers to arrange travel and for questions:

Corporate Travel Solutions/American Express
Phone: 218-722-9072 or 800-444-9072
After hours emergency service – 800-358-1639 (24 hours a day/7 days a week)
Office hours of operation 8 am–5 pm CST Monday–Friday

Frequent Flyer Miles

Frequent flyer miles accrued when traveling on company business may be used for upgrades, business or personal travel. However, choosing a particular supplier to maximize personal frequent flyer miles is not permitted. Expenses related to frequent flyer programs are not reimbursable by the Company.

Combined Business & Pleasure Travel

When combining personal and company travel, the business trip portion must be booked through the travel management company (i.e., CTS). The personal travel portion also may be booked with the travel management company; however, all personal travel costs must be paid for separately by the employee.

Automobile Rental with Commercial Air Travel

Enterprise Rental is the Company's selected automobile rental agency for local travel. National Car Rental or Enterprise should be used in all cases involving air travel, unless they are not available in a certain area. See "Rental Vehicles" for information on rental options for local travel. A driver's license and a credit card are required. Corporate credit cards should be used whenever possible for business travel. Links to National and Enterprise websites are located on the Company Intranet homepage.

NOTE: Employees are responsible for rental fees and their own insurance coverage on any personal days of the trip.

Employees should rent cars only when other means of transportation are more costly or impractical. Mass transit is available in many cities and may be a less expensive and more efficient mode of transportation than a rental car. Likewise, taxis or hotel shuttles may eliminate the need for rental cars if additional ground travel is not expected during the trip. In some cases, a limousine service may be more economical or feasible, depending on the employee's final destination. The employee should make all efforts to be flexible, to select the lowest cost-option that is reasonably convenient and which does not compromise personal safety.

Business Travel Accompanied by a Spouse

When a companion accompanies the employee on a business trip, the companion's expenses are generally paid by the employee. All expense reports requesting the company pay for spousal travel must include appropriate documentation. This should be approved in advance by the Chief Financial Officer and include a brief explanation as to why the spouse's attendance is required. All approved charges should be recorded to Spouse/Dependent and Personal Charges cost type #3400 (for non-executives) or #3409 (for executives) and will be reflected in the employee's taxable income.

Limiting Air Travel Risk

A major catastrophe involving a number of Company employees could be detrimental to the continued successful operation of the Company. The following guidelines for joint travel (either on commercial airlines or Company aircraft) should be followed:

- No more than three of the following positions will travel jointly:
  - CEO
  - Senior Vice President of ALLETE or Minnesota Power
  - Chief Operating Officer of Minnesota Power

  - Controller
- No more than three officers and/or directors from within the same area will travel jointly.

NON-REIMBURSABLE TRAVEL EXPENSES

Non-reimbursable expenses include:
- Incremental expenses incurred as a result of personal stopovers, weekend side trips or other personal travel scheduled within or around the business itinerary.
- Excess baggage charges for personal items (excluding bag fees required by the airline such as for the first checked bag), personal grooming, health-related expense (except for emergencies not covered by the employee's medical insurance program), late payment fees associated with reimbursement for use of personal credit cards, personal travel insurance, loss of cash advance money or personal funds, dependent care expenses, and household expenses incurred during an employee's travel.
- Purchase of luggage, clothing or other personal items is not reimbursable. If items are lost in transit, employees should replace items, attempt reimbursement through airlines (or other vendors), then via homeowners insurance.
- Traffic/parking fines, towing, court costs, airline club memberships, class upgrade charges for airline (excluding premium seat upgrades), personal entertainment expenses, personal gifts, personal reading materials, airline headset rental, etc.

COMPANY AIRCRAFT USE

The Company uses its own aircraft for some transportation. Use of the Company's aircraft must be approved by a vice president prior to travel. Employee should contact the Aircraft Coordinator and complete Form No. 3597 for travel arrangements.

MEALS AND ENTERTAINMENT

The Company reimburses employees for reasonable meal expenses, which include food, non-alcoholic beverages, alcoholic beverages and associated taxes and tips. Employees should consider the following:
- Tips and gratuities should be reasonable in relation to the locale visited and commensurate with the service performed.
- Employees are to fully consider the appropriateness of alcohol and the company's liability when serving and/or consuming alcohol. Employees must comply with the company's fitness of duty provisions, which are outlined in Section II. Company Practices. Employees who drive commercial motor vehicles are subject to the requirements of the Department of Transportation concerning drugs and alcohol.
- Employees must ensure that expenses are charged to the correct cost type and work order. Employees should contact their accounting representative for further information.

Travel Meals

While traveling, up to three meals a day may be reimbursed. Travel Meal documentation must include the purpose for the travel. Travel Meals related to approved professional organizations, industry or trade associations are reimbursable.

Business Meals

Business Meals with employees and non-employees that are not associated with travel and principally benefit the company may be reimbursed if the business cannot be reasonably conducted during regular business hours and has a valid business purpose. Meals to discuss casual business matters will not be reimbursed.

If meals are for a large group, documentation should specifically describe the group in attendance (such that the names/relationships could be determined). Meals will not be reimbursed without proper documentation. An employee may include on his or her expense report expenses for larger team meetings where supervisors are in attendance with other staff members and charged to a subordinate's corporate credit card. Otherwise, when two or more employees are in attendance for a meal meeting for company business, the highest-ranking employee must submit the costs for reimbursement.

Business Meals related to approved professional organizations, industry or trade associations are reimbursable.

Business Meal documentation must include the business purpose, name of those in attendance, and affiliation/company of non-employees.

Every effort should be made to use contracted corporate agreements for food and beverages purchased for business meetings.

Entertainment Events and Meals

Entertainment Events and Meals include tickets for sporting events, other ticketed entertainment, recreational events (e.g., golfing, fishing, resort activities, etc.) and associated expenses. Any expenses associated with entertaining employees or non-employees are reimbursable only when the principal purpose of the activity benefits the company.

Entertainment Events and Meals documentation must include the business purpose, name of those in attendance, including affiliation/company of non-employees.

The Company has determined that entertainment expenses will not be charged to ratepayers; therefore, a non-regulated work order and the correct cost type must be used for all costs associated with entertainment including tickets, food, and beverages, etc.

BUSINESS MEETINGS/EVENTS

Whenever possible, business meetings should be held on Company property and limited to business requirements.

Every effort should be made to use existing contracted corporate agreements or contracted hotels for off-site business meetings and events.

LODGING

Employees are encouraged to book hotels with their airlines tickets when using Corporate Travel Services. This is part of the fees paid for airline tickets. These hotels should be used whenever possible for overnight accommodations on business trips when the contracted property is close to the employee's final destination. Where negotiated discount rates are not available, the travel management company (i.e., CTS) will recommend good quality, moderately-priced hotels.

When making room reservations, corporate rates or the lowest available rate at check in should always be requested. Often hotels will reduce rates unexpectedly based on low occupancy.

Employees may be able to secure lower rates by supplying individual travel club information. Employees should include this information on their travel profile to ensure that the travel management company (i.e., CTS) can access those rates at the time of booking.

Cancellations must be made to avoid billing for unused rooms. Employees should contact the travel management company (i.e., CTS) to make cancellations. Employees who must cancel a reservation on their own should note the cancellation number and hotel contact person. The Company will not reimburse "no-show" charges. Employees should keep cancellation and reservation numbers for billing purposes. All charges for rooms should be paid using the corporate credit card whenever possible.

Employees who are attending an off-site meeting and reside in the same local area should commute to and from the meeting rather than stay in a local hotel, unless the length of the meeting or commute time represents an undue burden. Generally, if the meeting location is less than 50 miles from an employee's home, a hotel expense will not be approved. If an employee feels this is an undue burden, he or she should discuss this with his or her supervisor who may approve other arrangements.

For conference and hotel arrangements, employees should consider whether the hotel is reasonably priced and location allows for the safe and efficient conduct of business.

NOTE: Employees are responsible for hotel accommodations for personal days of the trip.

GROUND TRANSPORTATION AND PARKING

Employees may select ground transportation, using their personal vehicle, over commercial air travel, provided the expenses are less than the lowest available round trip airfare that would have been scheduled for the employee by the company travel agency. Employees should consider whether the transportation costs are reasonable and allows for the safe and efficient conduct of business.

- When evaluating costs, you must include expenses associated with the trip to and from the airport and any costs associated with car rental or ground transportation at the business destination.
- When using a personal vehicle, the standard approved mileage rate for the most direct route to and from the business destination, plus meals and lodging expenses for the travel time, should be included for comparison purposes.

Approval for selecting ground transportation over air travel must be obtained in advance from your supervisor. All expenses must be supported with appropriate original receipts and documentation, and reimbursement will be for the employee share only.

Documentation of the lowest available round-trip airfare provided by the company travel agency must be included with the request for reimbursement.

MOTOR VEHICLE USE

For motor vehicle use, the company provides two options for employees: rental vehicles or use of personal vehicle.

When using rental vehicles, refer to the Intranet page, under Employee Center, Online Travel Services and reference the Rental Vehicle section found below.

When employees use personal vehicles for Company business, they must have a valid driver's license and vehicle insurance according to the rules and laws of the state. They will be reimbursed as explained under the section Personal Vehicle Use found in this document.

- Employees must abide by all traffic regulations, federal, state, and local laws, ordinances and Company safety regulations while operating any vehicle on Company business.
- All occupants of any vehicle being operated on Company business are to wear their safety belts.
- Headsets (connected to radios, tape players, etc.) are not to be used by a driver when operating any vehicle on Company business. Headsets for cellular phone use are permitted.
- The Company is not liable for injury to a passenger who is in a vehicle and who is not a party to the Company business being conducted or for damage to such passenger's personal property or possessions. The Company is not liable for injury

to persons or for damage to property that occurs outside the "course and scope" of Company business.

Violations of this motor vehicle use policy include, but are not limited to, unauthorized use, abuse or neglect of Company policies, discourteous driving, violations of traffic laws, and/or falsification of reimbursement information. Infractions could result in discipline up to and including termination of employment.

Rental Vehicles

Employees involved in temporary project assignments, out of service area business or overnight travel may, with supervisor approval, obtain a rental vehicle. Refer also to instructions in the Supervisor's Guide. Interns, temporary employees through an external agency, and contractors are not authorized to rent vehicles under the Company contract.

The Company has pre-arranged agreements with Enterprise Car Rental for Duluth based travel. Employees are encouraged to utilize Enterprise or National Car Rental for travel outside of the Duluth area. Rental vehicle size should be requested based on business needs. Mid-size cars are standard. A link to the Enterprise website is located on the Company Intranet homepage. Follow the instructions listed on the website to rent a vehicle.

- When a rental vehicle is picked up, always check the condition of the vehicle. If it shows evidence of previous damage, do not accept the vehicle without notifying the rental agency.
- ALLETE is self-insured for rental vehicles. To assure coverage, it is essential that ALLETE's name be listed on the rental agreement. If the employee uses his/her Company corporate credit card to rent the vehicle, the Company name will be on the rental agreement.
- In the event that an employee has an accident in a rental vehicle, the employee should notify the rental company and ALLETE's Claims Department as soon as possible.
- Personal use of vehicles rented for business use should be minimal.
- Employees are responsible for rental fees and their own insurance coverage on any personal days of the trip.
- Only Company employees are authorized to drive a rental vehicle.

Employees should not accept additional car insurance for rentals in the United States. The Company's self-insurance policy and the bank issuing the corporate credit card provide this coverage. A Self-Insurer Identification Card showing the self-insured status can be obtained from the Purchasing Department. When renting a car outside the United States for business purposes, employees should purchase the liability and physical damage insurance coverage.

If the employee rents a car for both business and non-business travel during the same rental period, he or she may wish to purchase the additional insurance coverage for the non-business portion of the trip. Employees will not be reimbursed for this expense.

Rental cars should be refueled before return to avoid high fuel costs. If it is known ahead of time that refueling will not be possible and considerable driving is expected, an alternative may be to purchase gas from the car rental company at time of rental pick-up. Advance purchase of the full tank is generally at local gas station rates.

Personal Vehicle Use

All employees who use a personal vehicle for business must comply with the following items as referenced in Transportation's Personal Vehicle Plan found on the Intranet:

- Have a valid driver's license.
- Carry at least the minimum insurance coverage as required by law.
- Have an insurance policy covering the vehicle being used for business travel.
- Employees consistently using their personal vehicle for business travel should discuss this vehicle usage with their personal automobile insurance agent.
- Employees driving in excess of 9,000 miles per calendar year are required to carry additional insurance and be able to provide proof of insurance upon request.
- Should an employee be involved in a motor vehicle accident with a personal vehicle, the employee's insurance company is the responsible party. Any litigation arising from the accident is the responsibility of the employee's insurance company/agent.

If there is reason to believe an employee has inadequate or inappropriate coverage, the supervisor may require the employee to provide proof of insurance.

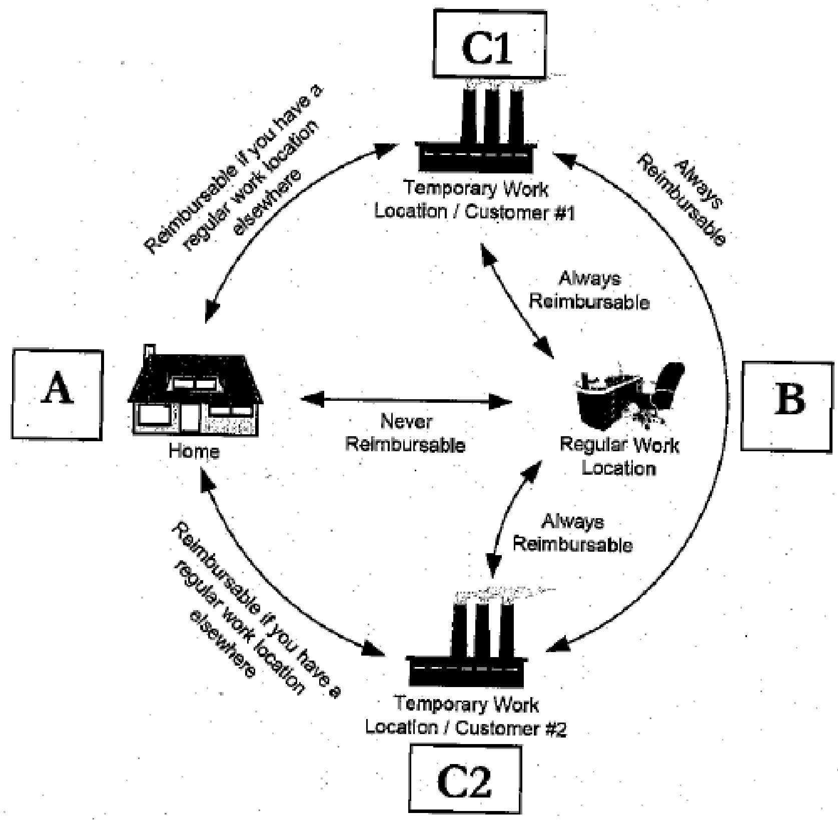
The Company reserves the right to request a Motor Vehicle Report (MVR) for any employee. The MVR shows the employee's driving record including all driving incidents for the last four (4) or more years.

The Company will reimburse employees for the use of personal vehicles at the current allowable IRS rate per mile. Supervisors are *not authorized* to reimburse employees over and above either Company plan or to create any special arrangements or conditions without the approval of both Tax and Human Resources.

Mileage

Per IRS guidelines, private automobile travel will be reimbursed based on the approved mileage rate for employees using their own vehicle for company business. For documentation purposes, employees must disclose the point of departure, the destination and the total miles for the trip. Employees should be aware that if mileage is paid but is not reimbursable under IRS guidelines, that reimbursement to the employee is taxable income per IRS regulations.

The following illustration depicts the rules used to determine if ground transportation expenses are reimbursable.



Expense reimbursement scenarios:

- Between home (A) and regular work location (B), whether by car or bus, is never reimbursable.
- Between home (A) and temporary work location/customer (C1 or C2), if you have a regular work location elsewhere, is reimbursable. The amount of reimbursement is the lesser of: 1) the distance from your home to the temporary work/customer location or 2) the distance from your regular work location to the temporary work/ customer location.
- Between regular work location (B) and temporary work location/customer (C1 or C2) is always reimbursable.
- Between two or more temporary work locations/customers (C1 or C2) is always reimbursable.

Definitions:

- Home – this is the place where you reside. Transportation expenses between your home and your main or regular work location are personal commuting expenses.
- Regular work location – your principal place of business.
- Temporary work location – this not your regular work location, but another company or off-site location to which you travel to perform work-related activities or to attend meetings or events. Travel to this location is for a year or less.

All of the above rules also apply on weekends; therefore, mileage incurred from home (A) to regular work location (B) is NOT reimbursable on the weekend.

PARKING

For the selection of airport parking or parking associated with business-related events, employees should consider whether the parking fees are reasonably priced, and location allows for the safe and efficient conduct of business.

Parking for a business-related activity is reimbursable only if the amount incurred is outside the employee's normal work location or if parking at the employee's work location is pre-approved. If an employee's parking at his or her normal work location is pre-approved, any amount reimbursed over the IRS limit is taxable.

The following parking expenses are not reimbursable:

- Expenses paid to park employee's car at his or her normal work location, when this expense is not pre-approved.
- In and out expenses associated with parking garages if incurred at a normal work location, and there is no related-business purpose.
- Parking tickets or expenses associated with towing a vehicle.

PERSONAL COMMUNICATION DEVICES

While traveling, personal telephone calls of a reasonable duration and frequency are reimbursable as long as the employee uses the most economical means available. Employees traveling should make business-related phone calls from company locations whenever possible, and/or use a calling card or personal cell phone whenever possible to avoid direct call fees from hotels or other public locations that charge high rates.

Employees who are eligible to be reimbursed for cell phone and data usage will be reimbursed through expense reports and must provide adequate original documentation supporting the expense. The employee also may have business personal communication expenses charged directly to their corporate credit card. Original receipts supporting the cell phone and data charges are required for reimbursement.

Additional information on Personal Communication devises can be found in Section II. Company Practices, Cellular Devises.

EMPLOYEE RECOGNITION GIFTS, BONUSES, AND AWARDS

It is important for supervisors to recognize the efforts of their employees. Recognition should be appropriate and reasonable for the work performed and meaningful to the employee. Employee recognition expenses need to be reasonable in amount, have a business purpose, and be compliant with the Code of Conduct. Employee recognition, gifts, and bonuses include High Performance Awards, Extraordinary Compensation, Spot / Project Bonuses, Gift Cards, Non-Monetary Gifts and Safety Awards, Special

Time Off with Pay, Recognition Meals and Events, and other employee recognition. The correct cost type and work order must be used for all Employee Recognition Expenses. Certain types and amounts of expenses must be approved by the department's vice president and/or the Chief Executive Officer.

High Performance Awards

High Performance awards may be considered to reward outstanding performance and results. As part of the annual review process 0.75% of the total annual nonunion, non-management payroll is allocated for lump sum high performance awards, typically payable in 1st quarter of the year following. The performance appraisal should detail the performance that substantiates the award. As a general guideline, High Performance Awards are designed to reward the top 5-10% of nonunion/non-management employees. Nominations for High Performance Awards should be submitted to the department's vice president.

Extraordinary Compensation

Special compensation plans may be developed for key individuals prior to a project that is long in duration and is strategic in nature (ie. Bison, Boswell Environmental Retrofit). These plans are structured prior to the start of a project and typically incorporate payout based on attainment of milestones. The monetary award should be comparable with the level of accomplishment.

Spot and Project Bonuses

Spontaneous and timely spot bonuses in the form of a lump sum check may be made to employees to recognize extraordinary efforts and accomplishments, going above and beyond normal job duties for the good of the Company and special recognition for a job well done. The monetary award should be comparable with the level of accomplishment.

Gift Cards

Gift Cards are used for recognizing employees who have added exceptional value to the organization through day to day excellence and effort. The amount of a gift card should not exceed $250.00.Gift Cards must be purchased through the Minnesota Power Employee Credit Union by using Form 6151 – Minnesota Power Gift Card Control Record (available online on the intranet page). VISA Gift Card requests require approval by supervisor or above. All gift cards are considered taxable income to employees for Federal, State, FICA and Medicare tax purposes. However, when payroll records the gift card as income to an employee, the amount of the taxable income will be increased to offset the additional tax deductions. Under IRS code, all cash awards are taxable and gift cards are equivalent to cash. Gift Cards are to be treated as cash and must be safely secured. Gift Cards for recognizing service and retirement are awarded through the Service Award program administered by Human Resources. Gift cards for these reasons should not be purchased by individual departments through this program.

Non-Monetary Gifts and Safety Awards

On occasion, departments may want to recognize their employees with a specific gift. Gifts for life events, such as flowers for a birth, funeral, etc., should be limited to immediate family members. Gifts given from one employee to another employee will NOT be reimbursed. If the total cost of all non-monetary awards received by an individual exceeds $1600 per year, the amount that exceeds the limit is taxable to the employee.

Non-Monetary Gifts – Under IRS code, non-monetary gifts that are a de minimus amount are non-taxable. As a general guideline, $75 or less per quarter would be considered de minimus. If the value of the gifts in the quarter exceeds $75, the entire value of *all* gifts is taxable earnings to the employee and is taxed at the employee's current W-4 election. Whenever the value of gifts given to an employee exceeds $75 in one quarter, the supervisor must notify the Payroll Department. Visa Gift Cards do not qualify as non-monetary gifts as they are considered by the IRS to be the same as cash and thus taxable.

Safety Awards – An individual's safety award cannot exceed $400. If awards exceed these limits, they must be considered taxable. The safety award items must be of tangible personal property and awarded in a meaningful presentation.

Special Time Off With Pay

The Company supports granting reasonable amounts of paid special time off in recognition of the extra effort of diligent and dedicated exempt employees who have worked unusual amounts of unpaid overtime. The amount and scheduling of special time off with pay is determined by the supervisor, based on considerations of departmental workflow, merit, and continuation of customer service. Employees who are granted special time off should charge their time to Other Time Off With Pay.

This privilege is not entitlement nor is it the intention that unpaid overtime hours worked be accumulated or special time off be granted on an hour by hour basis.

Recognition Meals and Events

Recognition Meals are meals incurred to recognize one or more employees for work-related accomplishments. This guidance should also be followed when seeking reimbursement for Recognition Events such as retirement or service anniversaries, etc. Recognition meals and events should be appropriate, reasonable, modest but meaningful. Employees should talk with their supervisor to determine what is reasonable.

Recognition Meal documentation must include the business purpose and name(s) of attendee(s).

Employees must ensure that all expenses associated with recognition are charged to the correct cost type and work order.

Other Employee Recognition

The Company recognizes employees for their on-going contributions to the Company in the form of service awards and retirement awards. These award programs are administered by ALLETE's Human Resources department.

Other Employee Recognition includes tickets for sporting events, other ticketed entertainment, and recreational events (e.g., golfing, fishing, resort activities, etc.) and requires approval by the department's vice president or director. Other employee recognition costs such as meals, gifts, awards and other associated expenses may be approved by the department's manager. Employee Recognition Expenses need to be reasonable in amount, have a business purpose, and be compliant with the Code of Conduct. The correct cost type and work order must be used for all Employee Recognition Expenses.

COMPANY-OWNED MOTOR VEHICLES

A Company-owned motor vehicle should be stored at a Company location unless other arrangements have been made with his/her supervisor or with Transportation Department. Based on job requirements, an employee may be authorized to take a Company vehicle home overnight.

- A Company-owned vehicle assigned to one employee may be used by another employee for Company business.
- It is prohibited to allow passengers other than employees to ride in Company vehicles without permission from the employee's supervisor.
- Driving of Company-owned vehicles by non-employees is not permitted except under special advance authorization by the supervisor.
- Company-provided vehicles are <u>not</u> to be used for personal business of any type without specific permission from the employee's supervisor and Transportation.
- Radar detectors are prohibited from use in Company vehicles.
- Employees shall not disable, modify, or otherwise tamper with any vehicle safety device in or on Company vehicles, including but not limited to, supplemental restraint systems (airbags). Vehicle safety devices include those devices installed by the vehicle manufacturer or the Company.
- Equipment may be added to Company vehicles only after written approval by the appropriate supervisor and must be coordinated through the Transportation Department.
- Company-provided vehicles are smoke-free and smoking is not allowed in any Company vehicle.
- Costs incurred from the use of Company-provided vehicles as well as other forms of transportation (rental car, taxi or bus) are to be charged to the appropriate work orders.

Policy on Taking Company-Owned Motor Vehicles Home Overnight

Approval for employees to take Company vehicles home overnight is at the discretion of the employee's supervisor and is decided on a case-by-case basis.

Only those vehicles that are controlled by the Company and have a Gross Vehicle Weight Rating (GVWR) of less than 10,000 pounds are eligible for home travel under this policy.

The first 10 miles to and from work are not charged to employees or up to 20 free miles each day. Employees will pay $.15 per mile for every mile over 20 that the employee would normally drive between his/her regular work location and home. The per mile rate will be adjusted annually based on the Company's Fixed and Variable Rate Reimbursement Plan. This daily number of miles is fixed and driving to or from any area other than his/her regular work location and the place where the employee resides does not alter this rule.

It is each employee's responsibility to comply with the following procedures when taking a Company vehicle home overnight:

- Only employees of ALLETE are allowed to ride in Company vehicles.
- Outside errands are not allowed when using a Company vehicle unless approved by supervisor.
- Vehicles must be legally parked at all times. Tickets received for illegal parking are the responsibility of the employee. See also areas of the Transportation Motor Vehicle Policy Manual referring to use of Company vehicles.
- Vehicle head bolt heaters must be utilized if existing weather conditions may have a negative effect on the starting of the vehicle. Head bolt heaters are installed in all Company vehicles. Should a vehicle not start, the employee should call the closest service station for assistance. Do not call Minnesota Power's fleet maintenance area.
- All Company vehicles are under the Company's policy, and the employee is not responsible for damage to the vehicle by vandals or nature.

By the 10th of the month following the month for which mileage is being paid, employees are to complete the Overnight Vehicle Payment Form No. 6078. The form can be found on ALLETE's Intranet page under the Transportation Department.

Assigned On-Call Vehicles

The Company provides a limited number of "specialized" vehicles to employees for business purposes. See the Transportation Manual for further information. These on-call vehicles are specialized vehicles for employees whose job function includes "on-call" status. These employees regularly respond to emergencies and/or incident investigations with materials, tools, or equipment (that would be carried in tool bins or in a service body), not including forms, reports, or communications/computer equipment.

MOTOR VEHICLE ACCIDENTS

This section covers steps to be taken if a Company vehicle, a rental vehicle, or an employee's personal vehicle is involved in an accident.

Driver Responsibility

At the scene of an accident, the driver should:

- Arrange for the immediate needs of injured persons.
- Contact appropriate law enforcement to file a police report.
- Obtain names and addresses of the other driver and all available witnesses.
- Make notes of any unusual conditions or circumstances, take appropriate measurements, and gather useful evidence.
- Avoid disputes or unnecessary discussions.

As soon as possible following the accident:

- Notify the Safety Department immediately following the accident whenever personal injury occurs during any business travel.
- Complete a Driver's Accident Report (Form No. 1329). Obtain the necessary approvals and send the original to Claims and a copy to Transportation. Specific requirements apply to drivers of Commercial Motor Vehicles (CMV) who are involved in accidents.
- If necessary, complete a Minnesota Motor Vehicle Accident Report (State Form). This form must be completed for all motor accidents involving $1,000 or more in property damage (combined between two vehicles) or personal injury. (Send the original and one copy to Claims and retain one copy.)

Motor Vehicle Accident procedures can be found in the transportation manual, located on ALLETE's Intranet page under the Transportation Department.

MOBILE DEVICE (WHILE DRIVING) POLICY

A driver who uses a handheld or multiple-touch cellular telephone or other mobile device ("mobile device") while driving can be significantly distracted. Distracted driving causes accidents. At ALLETE, we deeply value employee safety and seek to limit at-risk behavior. The company encourages all employees to minimize or eliminate the use of mobile devices while driving. This policy addresses the standards and practices for employees who use a mobile device while operating any vehicle or mobile equipment ("vehicle") in the course of his or her work for ALLETE.

This policy applies without regard to who owns the mobile device (e.g., the employee's personal property, company-owned, etc.). Likewise, this policy applies regardless of who owns the vehicle being operated.

- Any employee who operates a vehicle in the course of his or her employment must follow all applicable federal, state and local laws and regulations in addition to company policies. Employees who are subject to special licensure (e.g., commercial driver's license, etc.) must follow the rules and regulations associated with such licensure.

- Employees may not use a hand-held mobile device while operating a vehicle in the course of work. This rule prohibits all usage and handing of a hand-held mobile device, including, but not limited to, holding the mobile device and any form of keying or typing. An employee who needs to use a handheld mobile device while operating vehicle must pull over to a safe location and place the vehicle in park before doing so.

- Employees may use mobile devices controlled by hands-free technology while driving to initiate, answer, talk, listen or terminate a call by touching a single button on the hands-free device. The hands-free operation must not require the employee to take her or his eyes off the road. The mobile or hands-free device must be within close proximity. An employee may not reach for a mobile phone or hands-free device in an unsafe manner, such as reaching on the passenger seat or under the driver's seat.

- This policy does not limit employees from using the push-to-talk radios available in some company vehicles in the course of their work.

- Individual departments and workgroups may elect to establish and enforce more restrictive rules regarding the use of mobile devices in vehicles while driving, including an absolute prohibition on the use of any mobile device while driving. Any more restrictive rules will be communicated to employees by their respective management teams. Any employee who is unsure of the rules that apply in his or her work area should seek guidance from his or her immediate supervisor before using any mobile device in a vehicle in the course of her or his employment.

Employees violating this policy will be subject to disciplinary action, up to and including termination of employment.

Corporate Credit Card and Employee Expense Reporting Review

Who can have a Corporate credit card?

All employees who travel on Company business and/or are authorized to make minor purchases for Company business may be issued a Corporate credit card upon supervisor’s request.

How to obtain a Corporate credit card

An employee's immediate supervisor completes and signs the **Request for New Account Form 4969**; the supervisor and the employee complete and sign the **Minnesota Power Corporate Credit Card Agreement Form 6218**. Both forms are available at the Forms link on the Company's Intranet page. Both forms are forwarded to the program coordinator in Purchasing.

Fiscal Stewardship and Responsibility

Accepting the corporate credit card and signing the agreement requires compliance with the guidelines and procedures contained in the Corporate Credit Card and Employee Expense Reporting Policy & Procedure Manual available online at http://intranet.mnpower.com/mpnet/policies_procedures/

Compliance

Failure to comply with the published guidelines and procedures may result in disciplinary action, up to and including termination of employment.

Misuse of Corporate Credit Card

Misuse of the Corporate credit card for unauthorized charges may result in disciplinary action up to and including termination of employment.

Targeted Transactions

Cardholders ***should use*** their Corporate credit card for the following items:

- Business travel expenses
- Commercial air travel
- Transportation (taxi, shuttle, etc.)
- Enterprise rental vehicles
- Parking fees
- Lodging and associated expenses

Targeted Transactions
(continued)

- Business meals
- Conference, seminar, class registration
- Office supplies
- Books
- Dues and subscriptions
- Work clothing (safety boots, flame-retardant clothing)
- Miscellaneous small dollar material purchases

NOTE: This list may not be all-inclusive. Questions on appropriate uses should be directed to Purchasing or Accounts Payable.

Restricted Transactions

Cardholders ***should NOT use*** their Corporate credit card for the following items:

- Personal charges
- Cash advances
- Gift cards (purchase through MPECU—Form 6151)
- Gift certificates (purchase through MPECU—Form 6151)
- Professional services
- Inventory items (Stores)

Restricted Transactions
(continued)

- IT hardware and software (such as cell phones, PDAs, scanners, video conferencing equipment, digital cameras—use Request for Technology Form 6087)
- Significant purchases over $3,000 (Purchases >$3,000 require competitive bidding through Purchasing.)

Restricted Transactions
(continued)

- Single item purchases greater than single transaction limit. ***Cardholders <u>may not</u> split purchases to avoid their single transaction limit.***
- Medical expenses
- Political contributions

NOTE: This list may not be all-inclusive. Questions on appropriate uses should be directed to Purchasing or Accounts Payable.

Account Maintenance

For account maintenance, such as name change, replacement card for a broken or damaged card, credit limit or single-transaction request contact the program coordinator.

Reporting Lost or Stolen Cards

Contact Wells Fargo **IMMEDIATELY – 1-800-932-0036** to report a lost or stolen card. Wells Fargo will close your account and a new account will be opened and a new card will be sent. Wells Fargo will verify recent transactions on your account.

Contact the program coordinator to document report a lost or stolen card.

Reporting Fraudulent Charges

Contact Wells Fargo Customer Service **IMMEDIATELY – 1-800-932-0036** to report any possible fraudulent transactions on your card. Cardholder may be required to review all charges considered fraudulent. Wells Fargo may issue a new card for a new account if it is determined that the existing account should be cancelled at this time.

Contact the program coordinator to document the report of fraud.

Handling a Disputed Charge

Cardholder should contact the merchant to attempt to resolve the disputed charge as soon as possible. If you cannot resolve the disputed charge with the merchant, contact Wells Fargo Customer Service – 1-800-932-0036 to report the disputed charge on the account. Wells Fargo will record the circumstances of the disputed charge and advise you on resolution.

Statement Cut-off Date
Monthly Limit Reinstatement

Statement cut-off date is the 25th of the month. The account's full monthly limit is reinstated on the 26th of the month.

Cardholder Responsibilities

- **The Corporate credit card is the property of Minnesota Power and is to be used for Company business purposes *only*.** Any inadvertent personal charges must be reimbursed within 30 days.

- The Corporate credit card is issued in the name of the cardholder and no one except that cardholder may use the card.

Cardholder Responsibilities
(continued)

- Cardholder safeguards the Corporate credit card and its account number against loss or theft.
- Cardholder agrees to follow Company policy related to use of the Corporate credit card and co-signs the Minnesota Power Corporate Credit Card Agreement with immediate supervisor to confirm their agreement.

Cardholder Responsibilities (continued)

- Cardholder transactions are downloaded daily into Oracle iExpense. Cardholder accesses Oracle iExpense through Employee Self Service – ALT MP iExpense User.
- Step-by-step User Guides and manuals are available on the BPO webpage.
- Cardholder identifies and resolves any disputed or unauthorized charges, and immediately reports any fraudulent charges to Wells Fargo.

Cardholder Responsibilities (continued)

- Cardholder completes credit card transaction reconciliation within 30 days documenting a ***valid business justification*** in the justification field to include explanation of expenditures, dates, places / locations and names of the individuals if purchase applied to someone other than cardholder.

Cardholder Responsibilities
(continued)

- Cardholder prints the printable page, attaches ***all original receipts*** to the printable page and submits receipt packet to approver. Original receipts must contain an itemized list of all items purchased and the total cost for all of the items. For questions on missing receipts, contact program coordinator.

Cardholder Responsibilities
(continued)

- Reconciliations are due within 30 days of transaction download. ***Accounts with delinquent unreconciled transactions of >60 days will be placed in suspension until all transactions have been reconciled, expense report submitted and approved by Accounts Payable.*** After two suspensions, vice president approval is required for card reinstatement.

Cardholder Responsibilities
(continued)

- Cardholder returns the Corporate credit card to immediate supervisor before leaving service.

NOTE: Violation of this policy may result in disciplinary action, up to and including termination of employment.

Supervisor Responsibilities

- Immediate supervisor authorizes the issuance of Corporate credit cards.
- Immediate supervisor requests adjustments to monthly and/or single transaction limits by contacting the program coordinator or program administrator.
- Immediate supervisor ensures that cardholder does not use the Corporate credit card for personal use and that any inadvertent personal charges are reimbursed to the Company within 30 days. (Exception: Personal charges for safety boots or flame-retardant clothing are allowed.)

Supervisor Responsibilities (continued)

- Immediate supervisor ensures that all corporate credit card policies are adhered to concerning appropriate use of the corporate credit card and co-signs the Minnesota Power (or affiliated company) Corporate Credit Card Agreement with the cardholder.

- Immediate supervisor ensures that all policies concerning the corporate credit card transaction reconciliation are adhered to.

Supervisor Responsibilities (continued)

- Immediate supervisor ensures that cardholder has listed a detailed ***valid business justification*** in the justification field for all transactions on the expense report form.

- Immediate supervisor ensures that cardholder has attached ***all original receipts*** containing itemized list of all items purchased and the total cost for all of the items to the printable page.

- Immediate supervisor reviews, approves and submits the receipt packet with all original receipts to Accounts Payable for final approval.

Supervisor Responsibilities (continued)

Beginning January 1, 2011, Accounts Payable will no longer be responsible for ensuring that all receipts are attached to the expense report reconciliations. It is the supervisor's responsibility to ensure every expense report reconciliation is ***complete*** and ***accurate*** before it is sent to Accounts Payable. Please carefully review each of your employees' reports before you approve it.

Supervisor Responsibilities
(continued)

- Immediate supervisor notifies the program coordinator or the program administrator upon the cardholder’s termination of employment with the Company.

Contact Information

Program Coordinator – Brenda Jahr – Ext. 3487

Program Administrator – Jordan Simpson – Ext. 3152

Program Manager – Diana McFadden – Ext. 3065

Wells Fargo Customer Service – 800-932-0036

Cardholder customer service 24/7 – reporting lost or stolen cards, reporting disputed items, balances, recover pin, inquiries on transaction declines

Expense Reports

Employees are encouraged to utilize the corporate credit card program as much as possible; however, for those times when an employee has to use personal funds for authorized and appropriate business-related out-of-pocket expenditures, reimbursement should be requested using an expense report.

Keep Records

Documentation of allowable expenditures incurred while conducting Company business must be kept in sufficient detail to readily identify the amount and nature of any expenditure. This includes the documentation of business justification, dates, places/locations and persons involved.

Key information necessary to process expense reports include project and task related to the work effort being conducted, type of expenditure (meals, public transportation, personal mileage, flame-retardant clothing) and business justification for expenditures.

Save Receipts

IRS regulations require receipts for all lodging expenditures. Company policy requires ***all original receipts*** for ***all*** expense items. Receipts should contain an itemized list of all items purchased and the total cost for all of the items.

Obtain Approvals

Immediate supervisor is responsible for approving employee expense reports and is responsible for ensuring that all costs are accurate, business related and sufficiently documented. Pre-authorization by appropriate management should be received prior to any business travel.

Timely Submittal of Expense Reports

Expense reports should be processed and submitted as soon as possible after the expenses are incurred and no later than one month later. This will ensure accurate cost reporting and efficient payment of expenses to employees.

Expense checks are run and mailed every Thursday. To be processed in the weekly check run, expense reports must be received in Accounts Payable by noon on Wednesday.

Entering an Employee Expense Report or Credit Card Reconciliation

Employee expense reports and credit card reconciliations should be entered through Oracle iExpense the on-line input process at the Employee Self Service link.

Key information requirements for employee expense reports and credit card reconciliations include project and task, type of expenditure (meals, lodging, airfare, etc.) and business justification for expenditures.

Task Numbers

Task numbers are required for all charges on an expense report or credit card reconciliation. Any valid task number may be used for a line item on an expense report. Care should be taken to use a task number that is meaningful for the charge. It is the employee’s and supervisor’s responsibility to ensure the appropriateness of the task number being used. Charges to a different department’s task number should be approved by that department prior to use.

Expense Type

Expense types to be used are listed in the pull-down menu on the iExpense screen. This allows an employee to choose an expense type that will then automatically populate the appropriate account number.

Business Justification

Equally important for the recording of employee expenses is the business justification for any business expenses incurred by the employee. The documentation of the business justification allows the Company to meet IRS regulations and all external audit and internal control needs.

Information that should be a part of the business justification includes explanation of expenditure, dates, places/locations and names.

Personal Mileage

To record personal auto usage for business, select the Mileage Expense tab and fill in all the fields. The current mileage reimbursement rate will automatically be assigned.

Completing an Employee Expense Report or Credit Card Reconciliation SUMMARY

Upon completion of an expense report or credit card reconciliation, the employee should:

1) Print the printable page.
2) Attach all required receipts. The employee is required to attach ***all original receipts*** for ***all*** expenses when submitting the expense report for supervisory approval. Original receipts must contain an itemized list of all items purchased and the total cost for all of the items.
3) Submit receipt packet to immediate supervisor for approval.
4) Immediate supervisor completes review and forwards the entire package to Accounts Payable.

Questions ??

Brenda Jahr, Purchasing - Ext 3487

Jordan Simpson, Purchasing - Ext 3152

	Amount Included in 2017 Test Year	Adjustments to 2017 Test Year [1]	
Travel and Lodging - Employee	$1,742,836	$89,666	
Travel and Lodging - Vice President/Ten Highest Paid	120,614	37,091	
Food and Beverage - Employee	615,329	207,537	
Food and Beverage - Vice President/Ten Highest Paid	41,096	25,344	
Board of Director Expenses and Compensation	952,132	60,341	[2]
Expenses of Vice President/Ten Highest Paid	253,643	31,984	
Dues and Expenses	1,418,853	17,514	
Gifts	102,507	79,500	
Corporate Aircraft	385,851	385,851	[2]
Lobbying [3]	-	237,194	
Registration/Fees/Parking/Other	740,729	79,347	
		1,251,369	
Investor Relations		368,922	[2]
		$1,620,291	

[1] Adjustments to the 2017 test year are based on the review of the 2015 actual expenditures, as specific expense justifications do not exist in budget data.

[2] The 2017 test year adjustment for Board of Directors Expenses, Corporate Aircraft and Investor Relations utilize 2017 budget data as this information is readily identifiable.

[3] Lobbying is a below the line expense.

Minnesota Power

Key Word Search List				
Admin		First Day		Pie
AEIC		Fish		Pipeline
AGA		Fleece		Plant
Alcohol		Florist		Political
American Gas		Flower(s)		Pop
Anniversary		Fruit		Powerade
Appreciation		Fundraiser		Prize
Award		Funeral		Propel
Baby		Game		PUC
Bagel		Gatorade		Recognition
Bakery		Germany		Recreation
Bar(s)		Get Together		Refreshment(s)
Beer		Gift		Representative
Bereavement		Going Away		Resort
Beverage		Golf		Retirement
Birthday		Goodbye		Retreat
Bouquet		Granola		Roll
Bowl		Grid		Scholarship
Brand		Ham		Sen
Brewery		Hockey		Senate
Bridal		Holiday		Shareholder
Bulldog(s)		Hospitality		Shirt
Cake		Hunt		Shower
Candy		International		Ski
Casino		Investor		Snack(s)
Celebration		Jacket		Social
Chamber		Jerky		Soda
Christmas		Juice		Spa
Classic		Kitchi Gammi		Sponsorship
Club		Last Day		Spouse
Coach		Legis		Sympathy
Cocktail(s)		Levy		Team Building
Coffee		Liquor		Texas
Commission		Little Rock		Thank You
Concert		Lobby		Ticket
Contribution		Memorial		Tournament
Cookie(s)		Midstream		Treat(s)
Cupcake/Cup Cake		Mississippi		Turkey
Donation		Muffin(s)		TX
Donut		New Employee		UMD
Doughnut		New Hire		United Way
Drink(s)		NIRI		Veterans
Entertainment		Northland		Video
EOP		NYSE		Wedding
ERCOT		Oklahoma		Welcome
Event		Open		Wild
Farewell		PAC		Wine
Festival		Party		XMAS

Minnesota Power Regulated Operations
Operation and Maintenance Expense

	Actual						2016	2017
	2010	2011	2012	2013	2014	2015	Projected Year	Budget
Salaries	$73,769,412	$75,706,529	$80,052,033	$81,757,415	$82,980,777	$79,828,219	$79,541,230	$82,621,828
ALE/MP Employee Count (FT/PT)	***1,191***	***1,226***	***1,249***	***1,272***	***1,283***	***1,200***	***1,178***	***1,202***
Benefits and Payroll Taxes	33,080,099	37,071,441	38,614,671	35,957,480	30,037,888	31,238,101	26,809,640	30,905,037
Defined Benefit Plan - Pension	3,147,966	7,998,757	11,301,689	14,304,199	8,630,493	9,814,207	3,742,337	5,883,220
Defined Benefit Plan - OPEB	8,707,989	7,612,576	6,065,554	85,297	(1,331,807)	(1,595,438)	(2,065,199)	(625,188)
Defined Contribution Pension Plan - RSOP	5,123,019	5,279,976	5,481,072	5,757,185	5,995,128	6,179,479	6,987,924	7,352,588
Medical/Dental (active)	7,105,624	7,212,095	6,359,244	7,094,111	7,390,803	7,577,956	8,272,949	8,842,457
Other Benefits	3,089,592	3,082,109	3,167,246	2,129,666	3,013,192	3,140,125	3,355,113	3,627,694
Payroll Taxes	5,905,909	5,885,928	6,239,866	6,587,022	6,340,079	6,121,772	6,516,516	5,824,266
Incentive Compensation	6,856,809	7,959,464	6,945,830	8,188,152	7,822,654	7,305,308	7,528,110	7,942,117
Contract, Professional Service and Materials (excluding Bison)	72,927,446	71,242,037	64,528,424	59,063,430	63,086,041	60,371,494	60,029,014	60,901,568
Bison Contract and Materials	294,431	1,388,321	2,929,339	7,640,638	7,014,099	11,534,944	14,210,576	14,536,583
Employee Expense	3,348,727	4,023,182	4,243,615	4,041,110	4,193,901	3,051,182	3,965,999	3,799,408
Vehicle Use - Company Owned Vehicles	3,744,774	4,280,708	4,726,152	5,042,541	5,462,986	3,607,179	5,269,491	5,089,811
Fire and Casualty Insurance	4,780,046	4,688,023	5,993,862	6,672,321	6,470,062	7,162,273	7,632,896	8,070,833
Miscellaneous Operation and Maintenance	13,650,073	11,637,600	12,631,712	11,389,656	11,857,754	11,447,034	12,171,629	12,269,170
Total Operation and Maintenance *	**212,451,817**	**217,997,305**	**220,665,638**	**219,752,743**	**218,926,162**	**215,545,734**	**217,158,585**	**226,136,355**

** Excludes CIP and Fuel Cost Recovery expenses*