Direct Testimony
Rena E. Verdoljak

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-26-199

Exhibit _____

TAX

November 2, 2026

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. I am Rena E. Verdoljak, 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 position is Director – Tax.

Q. Please describe your educational background and work experience with ALLETE, Inc. ("ALLETE") and Minnesota Power.

A. I have 26 years of experience in tax and accounting. I have a bachelor's degree in accounting from the University of Wisconsin-Superior. I began my career in 2000 with McGladrey & Pullen, LLP in Duluth, Minnesota and worked in roles of increasing responsibility in tax and accounting, including my final role as tax manager. I have been employed by ALLETE since 2014. My previous positions with ALLETE include Supervisor – Tax, Supervisor – Accounting and Manager – Tax. In April of 2025, I became Director – Tax. I am also a licensed Certified Public Accountant in Minnesota.

Q. What is the purpose of the testimony you are presenting on behalf of Minnesota Power?

A. The purpose of my testimony is to discuss the methodology and inputs used to develop the property tax expense forecast for the 2027 test year (payable in 2028). I also provide support for the Company's request for a symmetrical property tax true-up, which will allow the Company to recover the amount of property taxes paid—no more and no less—and thus ensure customer rates accurately reflect the property taxes incurred. I also explain the tax implications of the acquisition of ALLETE and address any rate case related tax implications of H.R. 1 (119th Congress).

Q. Are you sponsoring any exhibits in this proceeding?

A. No.

II. PROPERTY TAX EXPENSE

A. Overview

Q. What is the purpose of your Direct Testimony related to property tax expense?

A. In this rate case, Minnesota Power is requesting recovery of forecasted property tax expense for the 2027 test year (payable in 2028). Payment of property taxes is a necessary expense in providing electric service to the Company's customers. I explain how Minnesota Power's property taxes are assessed and why Minnesota Power's methodology for forecasting property tax expense is reasonable.

Q. What amount of property tax expense is included in Minnesota Power's 2027 test year budget?

A. Minnesota Power's 2027 test year property tax expense is forecasted to be $46,758,031 Total Company ($40,333,651 MN Jurisdictional).

Q. What kinds of property taxes are included in the total amount for the 2027 test year?

A. Minnesota Power is subject to property taxes in both Minnesota and North Dakota. In Minnesota, the Company's taxes are primarily state-assessed, meaning the Minnesota Department of Revenue ("DOR") develops a value for the entire utility, and that value is allocated among all parcels in the counties where Minnesota Power has real or personal operating property. The Company's Minnesota wind and solar energy generation facilities are exempt from state-assessed tax and instead are subject to production taxes. Minnesota production taxes are not included in the 2027 property tax forecast. In North Dakota, taxes are assessed based on generation, capacity, and transmission line miles at the state level. As shown in Table 1, Minnesota property taxes represent the largest sum of the Company's property taxes. Therefore, the discussion in my Direct Testimony focuses on Minnesota and the DOR's valuation process.

Table 1. Forecasted 2027 Property Taxes (Payable in 2028)

		Percent of total
Minnesota State-Assessed Property Tax	$43,481,319	90%
Minnesota Locally Assessed Property Tax	$2,895,879	6%
North Dakota Property Tax	$1,974,011	4%
Adjustment For Tax Recovered in Riders	(1,593,178)	
Total	**$46,758,031**	**100%**

B. Minnesota's Property Tax Valuation Process

Q. Please summarize the process the DOR uses to value Minnesota Power's property.

A. The DOR has adopted administrative rules (codified in Minn. R. Ch. 8100) that it uses to estimate the value of all of Minnesota Power's operating property, considered as a unitary system.[1] In short, the DOR typically uses two primary approaches to estimate utility property valuation: 1) the cost indicator of value; and 2) the income indicator of value.[2]

The cost indicator of value is calculated based on the prior year cost of plant in service less depreciation plus construction work in progress. The income indicator of value is calculated by a weighted average of the most recent three years' net operating income divided by a DOR determined weighted average cost of capital (known as the capitalization rate or the "Cap Rate").

The DOR then assigns "weightings" to the results of those approaches to reach a "System Unit Value." The default weighting is 50 percent on the cost indicator and 50 percent on the income indicator. The System Unit Value is then adjusted to reflect the amount of Minnesota Power's operating property that is in Minnesota, to reach a Minnesota Allocated Unit Value. Certain items included in the Minnesota Allocated Unit Value are not taxable, such as pollution control equipment, wind and solar

[1] *See* Minn. R. 8100.0100 *et seq*.
[2] Under Minn. R. 8100.0300, the DOR may also utilize other approaches to value utility property, but it rarely does.

generation resources, and general plant items, among others. After adjusting for such deductions, the end result is the Minnesota Apportionable Market Value ("AMV").

The DOR then apportions the Company's AMV to each parcel in Minnesota on which the Company has operating property. The DOR's certificate of apportionment is provided to the counties and is used by them, along with other variables, to calculate the Company's property tax liability for each jurisdiction. Finally, the counties issue property tax statements to the Company. The amount payable on these statements, in the aggregate, is the amount of Minnesota property taxes paid by the Company.

Q. Is it difficult for Minnesota Power to forecast the Company's Minnesota property taxes?

A. Yes and no. On the one hand, the Company has a detailed understanding of the factors that affect the amount of Minnesota property taxes that will be paid and has developed a forecast methodology that is reasonable and allows for consistent forecasts from year to year. On the other hand, several of the factors are outside of the Company's control, and often there is some unpredictable change in them that causes the actual tax expense to vary from the forecast.

Q. Please describe the factors that are outside of the Company's control.

A. One of these factors is the Cap Rate. The DOR issues a Cap Rate study each spring, in which it determines the Cap Rate that it will use to determine all electric utilities' value under the income indicator of value approach. The DOR's Cap Rate methodology evolves from year to year, making the DOR's Cap Rate difficult to predict.

Another factor is the tax rate. The levy rate used by each municipality, and the statewide commercial-industrial general levy rate, vary somewhat from year to year, in part based on macroeconomic trends such as residential property values and interest rates.

A third factor is the DOR's willingness to settle in the administrative appeal process. In recent years, the Company has been successful in using this process to establish a lower valuation than the DOR's initial valuation, resulting in lower taxes. The Company works hard in these negotiations to reduce the initial valuation as much as possible, in order to help keep rates affordable, and will continue to do so. However, the amount of the valuation reduction achieved through the administrative appeal process varies from year to year and is unpredictable.

Q. Please summarize the DOR's administrative appeal process.

A. The administrative appeal process is set forth in Minn. Stat. § 273.372. It is in essence a negotiation between the utility and the DOR. It typically results in a binding agreement between the DOR and the Company in which the Company's AMV for the tax year is established at a lower level than the DOR's initial valuation. The settlement comes in the form of an agreed-upon AMV dollar figure, accompanied by a high-level verbal explanation from the DOR. The Company is unable to anticipate or predict the AMV that the DOR will agree to, or the DOR's reasoning behind its figure, before reaching a settlement with the DOR. Simply put, the negotiation process varies from year to year depending on how willing the DOR is to negotiate a lower value.

Q. Please summarize the timeline of the 2027 test year (payable 2028) property tax cycle of Minnesota Power.

A. During the summer of 2026, Minnesota Power developed its 2027 property tax forecast as described above, using the most currently available data, as described in the next section. In the first quarter of 2027, the Company will file its 2027 property tax rendition with the DOR using actual data for plant balances, net operating income, and other necessary inputs. On or around May 1, 2027, the DOR will release the 2027 Cap Rate study. In July of 2027, the DOR will issue its valuation notice. If Minnesota Power files an administrative appeal, the Company and the DOR will negotiate a final value. Historically, the final value is agreed upon in August. In March and April of 2028, the

Company will receive its property tax statements from the counties, payable in May and October of 2028. This will complete the 2027 test year (pay 2028) property tax cycle.

As described above, the 2027 test year property tax forecast is finalized and included in the cost of service in this rate case before any 2026 actual plant or operating income data is known, before the 2027 Cap Rate is known, before the outcome of the administrative appeal is known, and more than eighteen months before the effective tax rate is known.

C. Minnesota Power's Process for Estimating Taxes

Q. How does Minnesota Power forecast the amount of Minnesota property taxes for the 2027 test year?

A. Minnesota Power estimates the valuation of its property using a model that reflects the relevant financial data inputs for each of the approaches used by the DOR (the DOR primarily uses the cost approach and the income approach, as previously indicated). To forecast the cost indicator of value, the Company uses its most current budgeted data to estimate its plant balance and allowable deductions to plant balance on December 31, 2026. To forecast the income indicator of value, the Company uses its most current budgeted data to estimate net operating income for the year ending December 31, 2026 and applies the three-year weighted average net operating income used by the DOR. Another input to the income indicator is the Cap Rate.

The 2027 Cap Rate will not be released until spring 2027, so to estimate the 2027 Cap Rate, the Company uses the Cap Rate from the most recent Cap Rate study issued by the DOR, which in this instance is from May 1, 2026. Minnesota Power assumes an even weighting between the cost approach and the income approach. After adjustments to reflect the percentage of the Company's property that is in Minnesota and to remove excludables, Minnesota Power calculates the average of the prior three years' overall effective local tax rate for taxes payable in 2024 through 2026 and applies that rate to its estimate of the DOR's valuation that it created using the modeling and assumptions

described above. Using all of the above data, the Company is able to estimate now, for purposes of the rate case, an estimated amount of tax expense for the 2027 test year. This is the same methodology the Company followed in its rate case filed in 2023, its most recent rate case (Docket No. E015/GR-23-155) ("2023 Rate Case").

Table 2 below provides the Company's forecast of its 2027 Minnesota state assessed property tax.

Table 2. 2027 Forecast of Minnesota State-Assessed Property Tax

		Weighting	Amount*
System Unit Value			
Cost Indicator of Value, estimated (based on budgeted data)	$5,365,985,010	50.0%	$2,682,992,500
Income Indicator of Value, estimated (based on budgeted data and the 2026 Cap Rate)	$2,393,825,653	50.0%	$1,196,912,800
System Unit Value			$3,879,905,300
Minnesota Portion of Unit Value			
Minnesota Allocation Percentage, estimated			80.9%
Minnesota Allocated Unit Value			$3,138,843,400
Deductions to Minnesota Unit Value			
Total Excludable Items, estimated			$1,479,638,700
AMV			$1,659,204,700
Effective Tax Rate (3 year average)			2.621%
Minnesota State-Assessed Property Tax Forecast			$43,481,319

*Most of the figures in this column, including the effective tax rate, are rounded.

Q. Is Minnesota Power required to estimate its property tax expense for this rate case prior to knowing its actual property tax expense for the 2027 test year?

A. Yes. The tax expense for the 2027 test year is payable in 2028. As described above, the DOR's Cap Rate for taxes payable in 2028 will not be issued until May of 2027, the DOR's valuation for taxes payable in 2028 will be finalized in August 2027, and the property tax bills for that tax year will not be received by the Company until

approximately March 2028. To be submitted with this rate case, the property tax estimate has to be developed many months before those events.

Q. Does Minnesota Power's estimate of property tax expense for this rate case assume future changes in Cap Rates or effective tax rates?

A. No. As previously explained, these inputs are outside of the Company's control and are influenced by macroeconomic circumstances that cannot be predicted with reasonable certainty. Therefore, the Company does not attempt to guess how these inputs will vary from year to year in the future. The Company formulates its property tax expense estimate for the 2027 test year using the most recent Cap Rate and calculates the average of the prior three years' overall effective local tax rate to input into the estimate. The Company does not have any information to support how either of these inputs may change beyond the 2027 test year, therefore, the Company uses the most recent actual inputs.

Q. Due to the lead time required to estimate property taxes for the 2027 test year, and the variables that make the property tax expense difficult to predict, is Minnesota Power proposing any mechanism that would ensure that customers ultimately pay only actual property tax amounts?

A. Yes. As explained in the next section, the Company is proposing a property tax true-up that would ensure that customers only pay the actual amount of property taxes incurred by the Company.

III. PROPERTY TAX TRUE-UP

A. Overview of the Property Tax True-Up

Q. What is the purpose of this section of your Direct Testimony?

A. This section of my testimony explains the Company's proposed property tax true-up mechanism.

Q. How would the Company's proposed property tax true-up work?

A. The Company would include the forecasted test year property tax expense in base rates, which would establish the baseline for the property tax true-up mechanism. Each year, upon determination of the actual property tax expense, the Company would submit a compliance filing, and rates would be adjusted accordingly. This compliance filing would identify the amount by which the actual property tax obligations were over or under the forecasted baseline amount for property taxes established in this rate case. If the actual property tax obligations are lower than the baseline, the Company would refund the difference to customers, and if the actual property tax obligations are higher than the baseline, the Company would charge customers through a bill surcharge or similar mechanism.

For the 2027 forecasted test year, actual Minnesota property tax expense will be known soon after March 31, 2028, when property tax statements are issued by the counties. So, in approximately June 2028, the Company would submit a compliance filing comparing the actual 2027 property tax expense to the baseline and would explain how it would be refunding or charging customers the difference.

Q. Why should a property tax true-up be implemented for the Company?

A. Even though the Company's methodology for forecasting its property expense is reasonable and effective, some factors affecting the property tax expense – particularly, the DOR's Cap Rate, effective local tax rates, and the DOR's willingness to compromise in the administrative appeal process – are out of the Company's control and are not entirely predictable. The Company also has to estimate the property tax expense many months before the actual amount is known. As a result, final property taxes in a given year are often higher or lower than the Company's forecasts. The Company believes a symmetrical true-up mechanism reflecting actual rates in each year – either higher or lower than what is approved in rates – both ensures that customers only pay actual property tax amounts for a given year and allows the Company to fully and predictably recover this cost of providing service. Implementing a true-up should ensure that there

is never over-recovery of property taxes and thus is an important part of keeping rates as affordable as possible.

Q. Why is a property tax true-up important?

A. While it is important that the Company's property tax forecast be reasonably accurate, it is also important to prevent discrepancies in the actual amount paid versus the forecasted amount. The true-up protects both the Company and customers from variability of over- and under-recovery of the property tax expense.

Q. Would a property tax true-up benefit customers?

A. Yes. A true-up mechanism would reflect the actual property tax expense each year in rates and prevent the Company from collecting property taxes in excess of the actual expense. It would ensure that there is neither under- nor over-recovery of property tax expense in any given year.

Q. Did the Company request a property tax true-up mechanism in its prior rate cases?

A. Yes, but the Company's request was denied in the rate case the Company filed in 2021 (Docket No. E015/GR-21-335) ("2021 Rate Case") and was not adjudicated in the 2023 Rate Case.

Q. Why did the Commission deny the property tax true-up mechanism in the Company's 2021 Rate Case?

A. In the Company's 2021 Rate Case, the Administrative Law Judge ("ALJ") concluded that the Company's proposed property tax true-up was reasonable because it (1) was consistent with the true-up process used by Xcel Energy, (2) some variables in the property tax process were discretionary with the DOR, and (3) the Company has strong incentives to prudently manage and mitigate its tax expense.[3] However, the Commission

[3] *In re Application of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.,* Docket No. E015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS at 135–36 (Sept. 1, 2022) (eDocket No. 20229-188786-01).

disagreed with the ALJ and denied the Company's request for a property tax true-up.[4] The Commission concluded that the true-up was unnecessary "due to the relative predictability of the Company's annual property tax obligations."[5] The Commission explained that "in the past five years, Minnesota Power's property taxes have only twice changed by more than five percent, and these two increases coincided with Minnesota Power making significant capital investments in utility plant."[6]

Q. Did the Company renew its request for a property tax true-up in its 2023 Rate Case?

A. Yes, the Company renewed its request for a property tax true-up in its 2023 Rate Case.[7] The Minnesota Department of Commerce—Division of Energy Resources (the "Department") submitted testimony opposing the Company's proposed true-up. That rate case was resolved through a settlement. As part of the settlement, the Company agreed to forgo a property tax true-up at that time, so the issue was not considered by the ALJ or the Commission.[8]

Q. Why did the Department recommend denial of the Company's request for a property tax true-up mechanism?

A. The Department's position was that true-ups (or riders) are reasonable when costs change dramatically and unpredictably, are substantial in magnitude, and are due to factors beyond the Company's control. The Department argued that Minnesota Power's property taxes are not unpredictable or subjective.[9] The Department asserted that during 2017 to 2022, the Company's property taxes "have only changed more than 5 percent 3

[4] *In re Application of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.,* Docket No. E015/GR-21-335, FINDINGS OF FACT, CONCLUSION, AND ORDER at 76 (Feb. 28, 2023) (eDocket No. 20232-193486-01).
[5] *Id.*
[6] *Id.*
[7] *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.,* Docket No. E015/GR-23-155, DIRECT TESTIMONY OF RENA VERDOLJAK at 7 (Nov. 1, 2023) (eDocket No. 202311-200093-07).
[8] *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.,* Docket No. E015/GR-23-155, SETTLEMENT AGREEMENT at 6 (May 3, 2024) (eDocket No. 20245-206372-01).
[9] *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.,* Docket No. E015/GR-23-155, DIRECT TESTIMONY OF HOLLY JONES at 15 (March 18, 2024) (eDocket No. 20243-204433-01).

times."[10] The Department also argued that there are material differences between Minnesota Power's situation and the situations of Xcel Energy and CenterPoint Energy ("CenterPoint"), which have property tax true-ups in place.[11] The Department reasoned that the Company's request is different from Xcel Energy's because Xcel Energy is the only Minnesota electric utility operating under a multi-year rate plan.[12] In comparing the Company's property tax expense to that of CenterPoint's, the Department insisted that CenterPoint's tax expense was less predictable than that of the Company's because CenterPoint regularly challenges its property tax assessments in proceedings that can take several years.[13]

Q. Why is the Company asking for a property tax true-up again in this case?

A. The Company is renewing its request for a property tax true-up in this case because the Company's property taxes have been unpredictable in recent years. The Company's forecast is very reasonable because it uses the most current Company financial data, but the Company's forecast may result in over- or under-recovery because there are factors outside of the Company's control. Due to this unpredictability, a property tax true-up is needed to ensure the Company recovers the actual expense from its customers. This approach represents the most accurate, timely, and direct recovery mechanism supporting the true cost of service for the Company.

In addition, with respect to property taxes, the Company is similarly situated to other utilities regulated by the Commission that have implemented a property tax true-up. The Company experiences the same degree of unpredictability in its actual property tax expense as other regulated utilities operating in Minnesota and therefore it is similarly reasonable to implement a true-up mechanism.

[10] *Id*. at 15.
[11] *Id*. at 16.
[12] *Id*. at 16-17.
[13] *Id*. at 16.

B. Unpredictability of Property Tax Expense

Q. Are Minnesota Power's property taxes predictable?

A. As mentioned above, the Company's forecast methodology is reasonable and allows for consistency from year-to-year, but several of the factors that are part of the property tax forecast—the Cap Rate, the local effective tax rate, and the DOR's willingness to compromise in the annual administrative appeal process—are outside the Company's control and can change from year to year in unpredictable ways. I have first-hand experience reviewing the DOR's valuation of Minnesota Power's property and negotiating with the DOR each year. Based on my first-hand experience, I can say that there is often an unpredictable change in the Cap Rate, the local effective tax rate, and the DOR's willingness to compromise in the annual administrative appeal process - all of which are outside of the Company's control - that can cause the actual tax expense to vary significantly from the forecast.

Q. Please provide an example of how an unexpected change in the Cap Rate can result in inaccurate estimation of property taxes.

A. The Company's 2023 property taxes provide a useful example. The Company's internal forecast for 2023 property tax expense, developed in 2022, differed from the Company's actual property tax due to a change in the DOR's Cap Rate. The Company forecasted the Cap Rate would be 6.34 percent, similar to Cap Rates developed by the DOR in prior years. However, the DOR's actual Cap Rate for assessment year 2023 was 8.00 percent. The increase in the Cap Rate from 6.34 percent to 8.00 percent caused a decrease in the Company's 2023 property tax valuation, as determined under the income approach, of over $500 million, or about 21 percent:

Table 3. Effect of Change in Cap Rate

	Weighted Average Net Operating Income	Cap Rate	Resulting Valuation under the Income Approach
2023 Forecasted Valuation	$173,767,500	6.34%	$2,740,812,300
2023 Actual Valuation	$173,767,500	8.00%	$2,172,093,800

This massive change in value under the income approach caused the Company's 2023 property tax expense to be millions of dollars lower than the forecast assumed. This example demonstrates the DOR's determination of the Cap Rate is highly discretionary, subjective, out of the Company's control, and influential to the Company's actual property tax expense. It further demonstrates that a property tax true-up can protect customers as well as the Company.

Q. Can you provide an example of how the variability of the settlement from the DOR can result in inaccurate estimation of property taxes?

A. As explained above, the Company participates in an "administrative appeal" process each year to challenge and lower the DOR's initial valuation of the Company's property. This process is, in essence, a negotiation with the DOR: the Company proposes a lower value than what the DOR initially determined, and then the Company and the DOR haggle back-and-forth until a compromise is reached. The appeal process has historically resulted in a reduction in value as compared to the formulaic approach set forth in Minn. R. Ch. 8100 because the formulaic approach, used in the initial valuation by the DOR, has historically resulted in an overestimation of the Company's property tax. The Company has been successful in reducing the property tax valuation in the administrative appeal process, but the Company cannot predict the amount by which the DOR is willing to compromise on the value in each year's negotiation. In some years, the Company has achieved a reduction of around 12 percent against the DOR's initial value, and in other years, the Company has achieved less than a one percent reduction. For example, the 2020 administrative appeal reduced the Company's property tax expense by $5.9 million against the DOR's initial valuation, while in 2018 the

administrative appeal reduced the tax by less than $1 million against the DOR's initial valuation (these figures assume a constant three percent effective local tax rate in both years). This uncertainty about the administrative appeal negotiation with the DOR makes each year's property tax expense quite difficult to forecast.

Q. What is the significance of these examples?

A. They illustrate that a change in one of the factors that the Company does not control can result in a significant change to the property tax expense. These examples happen to all involve over-recovery, but in any given year, there could also be a change that results in under-recovery.

Q. Has the "predictability" of the Company's property tax expense been cited as a reason why a true-up should not be used?

A. Yes. For example, as I noted above, the Department argued that from 2017 to 2022, the Company's property taxes "only" changed more than five percent three times. The Department was trying to argue that the Company's property taxes were relatively predictable because they were correlated with valuation inputs such as the Company's plant-in-service. But the Department's argument actually shows that the valuation process is relatively unpredictable: in half of the years the Department focused on, the Company underwent a significant change to property taxes. And the data show that the Company's property taxes are not closely correlated to forecasting inputs, as the Department argued.

Q. Does the AMV assessed through the administrative appeals process correlate with known inputs to the Company's forecast, such as Total Plant in Service or Net Operating Income?

A. No. The Figure 1 and Table 4, below, illustrate the year-over-year changes in the utility's assessed value, Total Plant in Service, and prior-year Net Operating Income (both of which are inputs used in calculating the AMV). Although the final value is ultimately determined through a settlement process, one would expect some correlation

between changes in these inputs and changes in the resulting market value. However, as illustrated below, there does not appear to be a direct correlation between the changes in these inputs and the change in the assessed value. Instead, the data show the opposite: the Company's taxes have stayed relatively flat while the inputs swung up and down. The fluctuations demonstrate the difficulty of forecasting the Company's AMV and demonstrate the reasonableness of a true-up.

Figure 1. Year-Over-Year Comparison

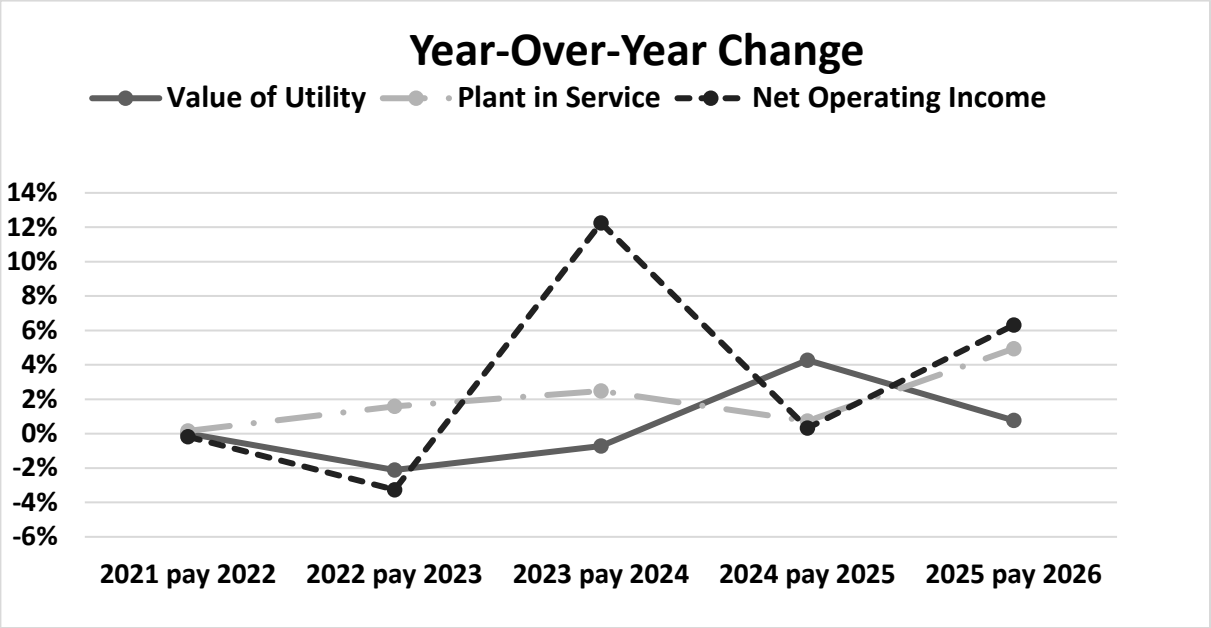


Table 4. Year-Over-Year Comparison

Year	AMV ($)	Total Plant in Service ($)	Prior Net Operating Income ($)
2020 pay 2021	1,420,000,000	5,000,155,751	185,031,573
2021 pay 2022	1,420,000,000	5,108,094,571	168,695,388
2022 pay 2023	1,390,000,000	5,189,309,932	163,194,846
2023 pay 2024	1,380,000,000	5,318,090,117	186,188,643
2024 pay 2025	1,439,000,000	5,357,328,239	183,786,915
2025 pay 2026	1,450,000,000	5,622,265,255	195,388,258

Over this six-year period, the Company's AMV has stayed relatively flat. But the inputs have veered up and down. In the 2022 and 2023 valuations, which saw significant

increases in plant in service, the Company's AMV actually went down. In 2024, the Company's AMV went up significantly even though net operating income decreased. There is no clear correlation between the inputs (plant in service and net operating income). The Company could not have predicted that the DOR's variables—the Cap Rate and its willingness to compromise during the administrative appeal process—would have resulted in these relatively stable valuations.

C. Other Minnesota Utility Property Tax True-ups

Q. Is Minnesota Power's situation similar to other utilities that have a property tax true-up?

A. Yes. Minnesota Power's situation, and need for a property tax true-up, is similar to that of Xcel Energy.

Q. Why is it relevant to compare the Company's situation to that of Xcel Energy's?

A. In the Company's 2023 Rate Case, the Department disagreed with the Company's request for a property tax true-up because it argued the Company's situation was different from that of Xcel Energy's. Specifically, the Department argued Xcel Energy's property tax true-up was appropriate because Xcel Energy is the only Minnesota utility operating under a multi-year rate plan.[14]

Q. Is Minnesota Power's property tax forecasting process similar to Xcel Energy's?

A. Yes, both companies' Minnesota property is assessed by the DOR using the methodology I described above, and both companies' property tax expense forecasts for rate cases have to be made years in advance of when the final expense will be known and are subject to the forecasting uncertainties discussed in this Direct Testimony: the DOR's willingness to compromise in the administrative appeal process, the DOR's Cap Rate, and the local effective tax rate.

[14] *Id*. at 16-17.

Q. Please describe the approvals Xcel Energy received for its property tax true-up.

A. Xcel Energy proposed a property tax true-up in its 2013 electric rate case.[15] In that case, Xcel Energy and the Department agreed to a lower property tax figure than Xcel Energy had originally proposed, subject to a true-up.[16] Although the Xcel Energy 2013 electric rate case involved a multi-year rate plan, the true-up was created to address the difficulty of estimating Xcel Energy's property tax expense. In 2015, following a multi-party settlement recommending the property tax true-up, the ALJ concluded the property tax true-up was "reasonable as proposed in the Settlement." The overall agreement was later adopted by the Commission.[17]

In 2019, as an alternative to undertaking another electric rate case, Xcel Energy filed a petition seeking to continue its existing true-ups for another year, including the property tax true-up.[18] Xcel Energy described that the property tax true-up was established "as [a] customer protection . . . to help ensure that only our actual property tax costs were recovered in rates . . . ."[19] The Commission again approved Xcel Energy's proposed property tax true-up.[20] In 2020, as an alternative to a rate case, Xcel Energy filed a

[15] *In the Matter of the Application of N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket E-002/GR-13-868, DIRECT TESTIMONY OF JAMES DUEVEL at 17-18 (Nov. 4, 2013) (eDocket No. 201311-93282-01).

[16] *In the Matter of the Application of N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket E-002/GR-13-868, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS at 150-151 (Dec. 26, 2014) (eDocket No. 201412-105711-01).

[17] *In the Matter of the Application of N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket E-002/GR-15-826, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS at 48 (Mar. 1, 2017) (eDocket No. 20173-129579-01).

[18] *In the Matter of the Petition of N. States Power Co., d/b/a Xcel Energy, for Approval of True-Up Mechanisms*, Docket No. E-002/M-19-688, PETITION FOR APPROVAL OF TRUE-UP MECHANISMS (Nov. 1, 2019) (eDocket No. 201911-157151-02).

[19] *Id*. at 11.

[20] *In the Matter of the Petition of N. States Power Co., d/b/a Xcel Energy, for Approval of True-Up Mechanisms*, Docket E-002/M-19-688, ORDER APPROVING TRUE-UPS AND REQUIRING XCEL TO WITHDRAW ITS NOTICE OF CHANGE IN RATES AND INTERIM RATE PETITION at Order Point 1 (Mar. 13, 2020) (eDocket No. 20203-161223-01).

petition proposing, among other things in response to the COVID-19 pandemic, an annual property tax true-up.[21] The Commission approved Xcel Energy's proposal.[22]

In 2021, Xcel Energy proposed a property tax true-up in both its multi-year electric rate case[23] and its natural gas rate case (which involved only one test year).[24] In the electric rate case, the Department recommended approval of the property tax true-up and the ALJ found that Xcel Energy's true-up process was "reasonable and should be adopted."[25] The Commission later approved Xcel Energy's proposed property tax true-up based on these recommendations.[26] The natural gas rate case was resolved through a settlement in which the Company agreed to an annual property tax true-up to continue "until the next rate case."[27]

Most recently, Xcel Energy proposed to continue the property tax true-up in its 2024 electric rate case. The Department supported the continuation of the property tax true-up and the ALJ wrote "the use of a true-up is reasonable because property tax expense has to be estimated many months before the actual amount is known, and because the

[21] *In the Matter of an Inquiry into Utility Investments That May Assist in Minn.'s Economic Recovery from the COVID-19 Pandemic*, Docket No. E, G-999/CI-20-492, RESPONSE AND PETITION at 30 (Sept. 16, 2020) (eDocket No. 20209-166607-03).

[22] *See In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy for Approval of 2021 True-Up Mechanisms*, Docket No. E-002/M-20-743, ORDER APPROVING TRUE-UPS WITH MODIFICATIONS AND REQUIRING XCEL TO WITHDRAW ITS NOTICE OF CHANGE IN RATES AND INTERIM RATE PETITION at Order Point 9 (Apr. 2, 2021) (eDocket No. 20214-172538-01).

[23] *In the Matter of the Application of N. States Power Co., d/b/a Xcel Energy, for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E-002/GR-21-630, DIRECT TESTIMONY OF AREND at 2 (Oct. 25, 2021) (eDocket No. 202110-179121-03).

[24] *In the Matter of the Application of N. States Power Co., d/b/a Xcel Energy's Petition for Auth. to Increase Nat. Gas Rates in the State of Minn.*, Docket No. G-002/GR-21-678, DIRECT TESTIMONY OF AREND at 9 (Nov. 1, 2021) (eDocket No. 202111-179344-03).

[25] *In the Matter of the Application of N. States Power Co., d/b/a Xcel Energy, for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E-002/GR-21-630, DIRECT TESTIMONY OF SODERBECK at 24 (Oct. 3, 2022) (eDocket No. 202210-189485-06); *In the Matter of the Application of N. States Power Co., d/b/a Xcel Energy, for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS at ¶ 181 (Mar. 31, 2023) (eDocket No. 20233-194394-01).

[26] *In the Matter of the Application of N. States Power Co., d/b/a Xcel Energy, for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSION, AND ORDER at Order Points 86 and 118 (July 17, 2023) (eDocket No. 20237-197559-01).

[27] *In the Matter of the Application of N. States Power Co., d/b/a Xcel Energy's Pet. For Auth. to Increase Nat. Gas Rates in the State of Minn.*, Docket No. G-002/GR-21-678, SETTLEMENT AGREEMENT at 3-4 (Oct. 4, 2022) (eDocket No. 202210-189551-01).

amount of property tax expense can vary from year to year depending on inputs that the Company cannot control. The Company's proposed property tax true-up process is reasonable and should be adopted by the Commission."[28] Following these recommendations, the Commission agreed to extend the property tax true-up.[29]

Q. Is Xcel Energy's use of a property tax true-up a direct result of its history of multi-year rate cases?

A. No. Review of Xcel Energy's recent rate cases shows that the record does not support the argument that Xcel Energy's property tax true-up was linked to its multi-year rate plan. Rather, it appears that the true-up was created to address the difficulty of estimating Xcel Energy's property tax expense, not because it was a multi-year rate case.

Q. Does Xcel Energy's use of a property tax true-up support the Company's request?

A. Yes. Since 2013, Xcel Energy's property tax true-up has been approved time and time again to protect the utility and its customers from over- or under-recovery of the property tax expense. Minnesota Power is in a similar position to that of Xcel Energy, and its customers should similarly be protected from over- and under-recovery. Xcel Energy's longstanding use of a property tax true-up demonstrates the reasonableness of Minnesota Power's request.

Q. Is Minnesota Power's situation similar to that of CenterPoint?

A. Yes. The Company's situation is similar to that of CenterPoint. In the Company's 2023 Rate Case, the Department argued the Company's situation was materially different

[28] *In the Matter of the Application of Xcel Energy Pet. for Auth. to Increase Rates for Elec. Serv. in Minn.*, Docket No. E-002/GR-24-320, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS at 46-47 (Apr. 29, 2026) (eDocket No. 20264-231211-01).

[29] *In the Matter of a Petition of Xcel Energy, for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E-002/GR-24-320, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at Order Point 90 (July 31, 2026) (eDocket No. 20267-234806-01); *In the Matter of the Application of Xcel Energy for Auth. to Increase Rates for Elec. Serv. in State of Minn.*, Docket No. E002/GR-24-320, ORDER RECONSIDERING JULY 31, 2026 ORDER ON OWN MOTION AND CLARIFYING ORDER at 6-7 (Oct. 16, 2026) (eDocket No. 202610-237687-01).

from that of CenterPoint's because CenterPoint regularly challenged its property tax assessment, therefore, justifying the need for a property tax true-up for CenterPoint.

Q. How is Minnesota Power's property tax situation similar to that of CenterPoint's?

A. While the Department correctly identified in the 2023 Rate Case that CenterPoint had regularly challenged its property tax assessments in proceedings that can take several years, the Department did not recognize that the underlying factors that make the property tax assessment unpredictable are the same between CenterPoint and the Company. Further, CenterPoint's then-recent litigation followed unsuccessful negotiations between CenterPoint and the DOR in the administrative appeal process. Minnesota Power is pleased that it has been able to use the administrative appeal process to reach tolerable assessments without having to resort to this type of litigation, which is extremely disruptive and creates massive uncertainty for all involved. Minnesota Power's successful navigation of the administrative appeal process both demonstrates its ongoing work to keep property taxes low for customers, and is a success story; the utility's ability to avoid costly appeals should not be a basis to recommend against a property tax true-up.

Q. Did CenterPoint's litigation with the DOR involve their property tax true-up?

A. No. CenterPoint's litigation with the DOR involved the DOR's valuations. The true-up mechanism is unrelated to the litigation.

Q. Does CenterPoint's use of a property tax true-up support the Company's request?

A. Yes. CenterPoint experiences the same underlying factors that make the state-assessed property tax assessment process, and resulting tax expense, unpredictable. CenterPoint's litigation with the DOR does not involve the property tax true-up and there are no identifiable differences between CenterPoint's and the Company's situation that justify denying the Company's request but approving CenterPoint's request. The similarities between CenterPoint's and the Company's situation demonstrate the reasonableness of the Company's request.

D. The Proposed Property Tax True-is Reasonable

Q. If the Commission approves the Company's request for a property tax true-up, will the Company continue to advocate for the lowest possible state-assessed valuation?

A. Yes. Customer affordability remains a top priority, and property tax is one of the Company's most significant operating expenses. The Company has consistently worked to negotiate a fair and reasonable value on behalf of its customers, and the Company will continue this practice if a property tax true-up is approved. The Company has a long-proven history of successfully advocating for adjustments to lower its AMV and has every incentive to continue to do so. The Company does its best to accurately project its assessment and the resulting property tax expense. Having a property tax true-up in place will not change any of this.

Q. Please summarize why the Company is asking for a true-up mechanism in this Rate Case.

A. The Company continues to experience unpredictability in its property tax expense, as discussed in this testimony. Notably, there does not appear to be a direct correlation between key forecasting drivers, such as Total Plant in Service and Net Operating Income, and the state-assessed value. Even though the Company believes its forecasts are as reasonable as possible, external factors cause the actual property tax expense to fluctuate in a somewhat unpredictable manner. A true-up mechanism would protect customers while ensuring that the Company is able to recover property tax costs in a fair and reasonable manner.

IV. TAX-SHARING AGREEMENT

Q. Was ALLETE recently involved in an acquisition?

A. Yes. On December 15, 2025, ALLETE was acquired by Canada Pension Plan Investment Board ("CPP Investments") and Global Infrastructure Partners ("GIP") (the

"Acquisition").[30] The Acquisition was approved by the Commission in an order dated December 10, 2025. As a result of the Acquisition, ALLETE became a wholly-owned subsidiary of Alloy Parent, LLC, which is owned indirectly by CPP Investments and GIP. CPP Investments and GIP also formed two holding companies above Alloy Parent, LLC; Alloy TopCo, LLC and Alloy IntermediateCo, LLC. Alloy TopCo, LLC is the common parent of the newly formed consolidated federal tax group of which ALLETE is a member.

Q. Did the Commission's approval of the Acquisition contain conditions?

A. Yes. One of the conditions of the Commission's approval of the Acquisition was that within six months, the Company had to file a petition with the Commission proposing a corporate reorganization in which entities within the Company that are not regulated utilities would be separated from Minnesota Power. That petition (the "Reorganization Application") was filed on June 1, 2026 and is pending before the Commission.[31] In the Reorganization Application, the Company proposed that Minnesota Power will become a wholly-owned subsidiary, called Minnesota Power, Inc., of a new ALLETE holding company, called ALLETE, Inc.[32]

Q. Did the Commission's approval of the Acquisition contain other conditions relating to tax?

A. Yes. One of the conditions was that ALLETE and Alloy Parent entities (as appropriate) would establish a new tax-sharing agreement that will be subject to Commission

[30] *In the Matter of the Petition of Minn. Power for Acquisition of ALLETE by Canada Pension Plan Investment Board and Global Infrastructure Partners*, Docket No. E015/PA-24-198, ACQUISITION CLOSING UPDATE (Dec. 16, 2025) (eDocket No. 202512-225912-01).

[31] *In the Matter of the Appl. of ALLETE, Inc., d/b/a Minn. Power, for Approval of an Internal Corporate Reorganization and Associated Affiliated Int. Agreements*, Docket No. E015/M-26-227, PETITION FOR APPROVAL (June 1, 2026) (eDocket No. 20266-232407-03).

[32] As described in the Reorganization Application, Alloy Parent, LLC will contribute all issued and outstanding stock of ALLETE, Inc. to ALLETE Holdings Inc. ("ALLETE Holding Company"). Then, ALLETE, Inc. will convert from a corporation to a Minnesota limited liability company and change the name of the company to ALLETE, LLC and subsequently to Minnesota Power, LLC, a Minnesota limited liability company, and then Minnesota Power, Inc., while the name of ALLETE Holding Company will change to ALLETE, Inc. *Id.* at Attachment A-3.

approval.[33] On December 18, 2025, the Company filed a new tax sharing agreement with the Commission.[34]

Q. Please briefly describe the Tax Sharing Agreement that was filed.

A. The tax sharing agreement allocates the Alloy TopCo, LLC consolidated tax group's federal and state income tax liability among the subsidiary companies. For rate-regulated companies such as Minnesota Power, the income tax liability is calculated as if the subsidiary was filing on a separate basis. Any impacts of consolidation are borne by non-regulated subsidiaries. In periods where Minnesota Power has taxable income, it is required to make quarterly tax payments to Alloy for its separate tax liability. In periods where Minnesota Power has taxable losses, Alloy TopCo, LLC is required to make quarterly tax payments to Minnesota Power to the extent that Minnesota Power's losses reduce the consolidated tax liability of the Alloy TopCo, LLC consolidated group.

Q. Are there any material changes to the Company's property tax process or anticipated property tax expense as a result of the Acquisition?

A. No. The Acquisition in general, and the new Tax Sharing Agreement in particular, did not change the Company's forecasted property tax expense and the Company is not making any request in this rate case that is based on the Tax Sharing Agreement. The purpose of this section of my testimony is simply to confirm that the Tax Sharing Agreement was filed as required.

[33] *In the Matter of the Petition of Minn. Power for Acquisition of ALLETE by Canada Pension Plan Investment Board and Global Infrastructure Partners*, Docket No. E015/PA-24-198, ORDER APPROVING PETITION FOR ACQUISITION WITH CONDITIONS AND ESTABLISHING OTHER REQUIREMENTS at Settlement Stipulation ¶ 1.31 (Dec. 10, 2025) (eDocket No. 202512-225721-01).

[34] *In the Matter of the Petition of Minn. Power for Acquisition of ALLETE by Canada Pension Plan Investment Board and Global Infrastructure Partners*, Docket No. E015/PA-24-198, TAX SHARING AGREEMENT (Dec. 18, 2025) (eDocket No. 202512-226001-01).

V. H.R. 1 (119TH CONGRESS)

Q. Does the Company consider the impacts and benefits of the federal Inflation Reduction Act ("IRA")?

A. Yes. Order Point 1 of the Commission's September 12, 2023 Order in Docket No. E,G999/CI-22-624 requires utilities to maximize the benefits of the IRA, to address its impacts in system planning and cost recovery proceedings such as a rate case, and to discuss any impacts of the IRA on planning assumptions and budgets. The Company strives to take advantage of federal funding and tax credits for which it is eligible. However, certain aspects of the IRA were modified by the passage of H.R. 1 (119th Congress) ("H.R. 1").

Q. What is H.R. 1?

A. H.R. 1 is federal legislation that was enacted on July 4, 2025. The legislation accelerated the phase out of Production Tax Credits and Investment Tax Credits for solar and wind projects. Such tax credits are no longer available for solar and wind facilities that are placed in service after December 31, 2027, with an exception for facilities that begin construction before July 5, 2026.

Q. Does H.R. 1 have any material effect on issues in this rate case?

A. No. The legislation accelerated the phase out of tax credits for wind and solar projects, but allowed credits for projects that began construction by July 4, 2026. The Company began construction on its Boswell and Regal solar projects and its Longspur wind project before July 5, 2026, so the tax credits that will be obtained for those projects under the IRA are not affected by the legislation. Rate recovery for all these projects is addressed through the Company's Renewable Resources Rider. The tax changes for renewable energy projects in the legislation will not be an issue in this rate case. Additional details of the impact of the legislation on opportunities available under the IRA are discussed in the Company's May 13, 2026 compliance filing in Docket No. E,G999/CI-22-624.

VI. CONCLUSION

Q. Please summarize your Direct Testimony for the Commission's consideration.

A. I recommend that the Commission approve the Company's forecasted property tax expense for the 2027 test year, which represents a reasonable level of property tax expense and baseline for the Company's proposed property tax true-up. In addition, I recommend that the Commission approve the proposed property tax true-up mechanism.

Q. Does this complete your Direct Testimony?

A. Yes.