

Securitization

House Energy Committee
2-2-2021

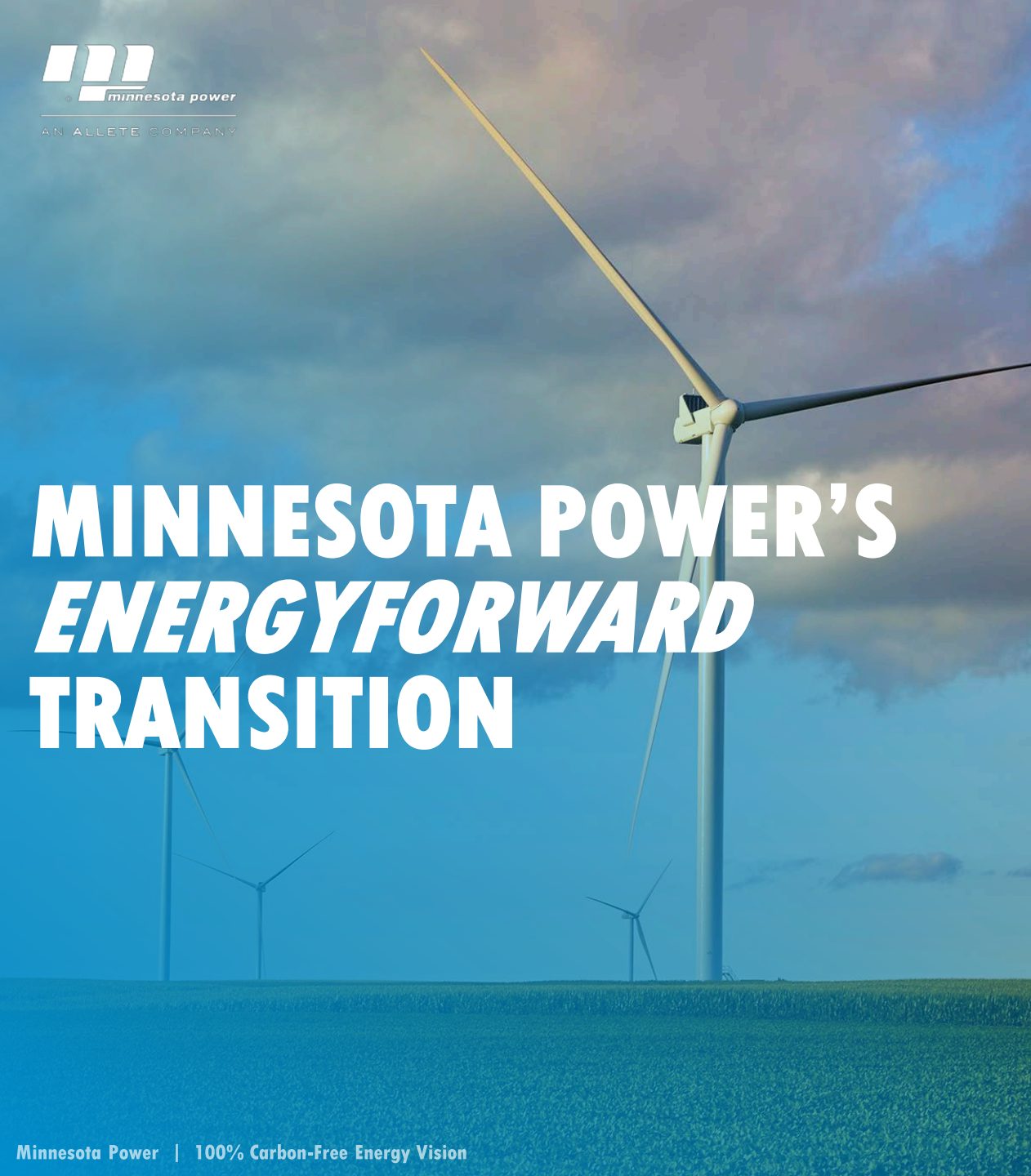
Thor Underdahl – Mgr, Government Affairs

WE ARE UNIQUE



Duluth, MN	Headquarters
26,000	Square-miles
145,000	Customers
13%	Residential sales
74%	Industrial sales
15	Municipalities
13th lowest	Electric rates*
\$1.1 million	Donated in 2018

*Source: Edison Electric Institute



MINNESOTA POWER'S *ENERGYFORWARD* TRANSITION

Yesterday

Nine coal units

95% of energy from carbon sources

Today

First Minnesota utility to deliver 50% of energy from renewable sources

7 of 9 coal units closed or transitioned

50% reduction in carbon

Achieving state standards a decade early

Tomorrow

100% carbon-free energy by 2050

BLUEPRINT TO BUILD OUR CARBON-FREE ENERGY FUTURE



Expand renewable sources of energy—Add an estimated 400 MWs of wind and solar



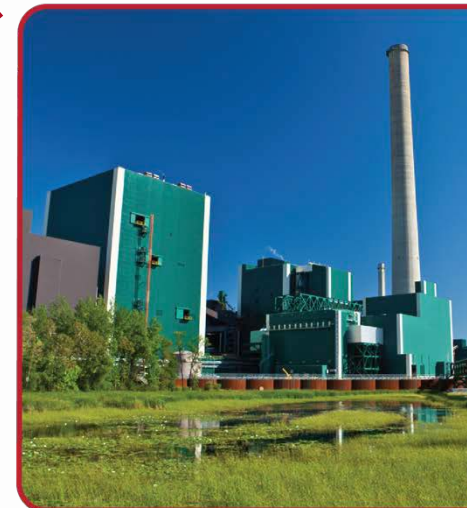
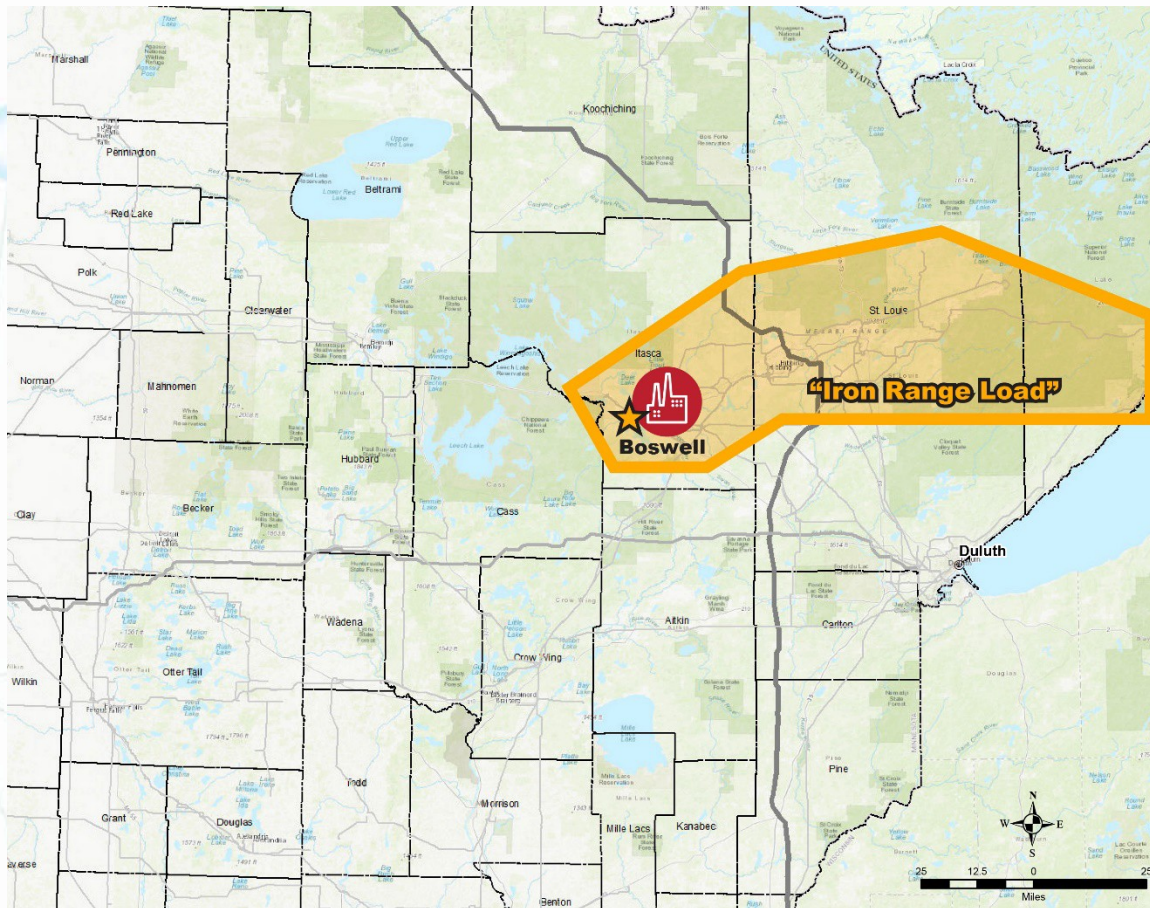
Achieve coal-free energy supply

- **2030** Retire Boswell Energy Center Unit 3
- **2035** Coal-free energy supply at MP Boswell Energy Center Unit 4*

*WPPI is a 20% owner of BEC Unit 4

Boswell Energy Center

Boswell Energy Center



935 megawatts
(Units 3 and 4)

\$300+ million invested
(Unit 4 emission-control)

90% mercury reduction
(since 2016)

70% emission reduction
(Boswell total)

2 units retired in 2018
(Units 1 and 2)

Financial Tool: *Securitization*

Opportunities

- May lower customer costs by refinancing utility debt and equity with higher rated, lower cost debt
- May allow for new utility investment, transition assistance depending on structure of legislation

Challenges

- MP revenue volatility is high due to concentrated customer/revenue base
- As a small utility, achieving the refinancing benefits can be challenging - relative bond size and tenor are important
- Less flexibility for regulators in future rate design
- May weaken utility financial health

Other Rate Mitigation Tools

Complexity of securitization will need to be considered against other rate mitigation options

- Land Sales
- PTC requalification
- Demand Response
- Capacity Charge Solutions
- Depreciation Schedules

Generation Employee Transitions



- Thermal Generation
 - Boswell Energy Center – Coal (940MW)
 - 185 (previously ~242)
 - Laskin Energy Center – Gas (110MW)
 - 9 (previously ~40)
- Co-Gen
 - Hibbard Energy Center (62MW)
 - 25 (previously 34)
 - Rapids Energy Center – Gas (12MW)
 - 13 (previously ~37)

Securitization: *Key Takeaways*

- Not a one size fits all tool -- utility specific
- May have some net NPV benefits in 2030 but requires the creation of additional new tools to resolve the issues that arise for MP's unique situation
 - Customer Rate Volatility
 - Market Indexing
 - Utility tax and debt considerations