

E-015/CI-90-261 REQUIRING DIVERSIFICATION REPORT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Patrice Vick	Commissioner

In the Matter of an Investigation into the
Diversification Activities of Minnesota Power
and Light Company

ISSUE DATE: May 8, 1990

DOCKET NO. E-015/CI-90-261

ORDER REQUIRING DIVERSIFICATION
REPORT

PROCEDURAL HISTORY

On December 20, 1989, Minnesota Power and Light Company (MP or the Company) filed its petition for certification of capital structure and authorization to issue securities for 1990. The Company sought Commission approval of a 1990 issuance of \$120 million in common stock, among other stock and bond offerings.

The Company indicated that the requested common stock offering might be used to finance certain stock purchase plans, and for possible diversification into other businesses, such as additional water, wastewater treatment, telephone and related utility companies.

On March 5, 1990, the Department filed comments in this matter. The Department recommended that the Commission approve MP's certification petition, subject to the Commission's authority to use a different capital structure for purposes of future rate setting.

By Order dated April 20, 1990, the Commission approved the Company's capital structure and indicated the Commission's intent to initiate an investigation into the Company's diversification activity. ORDER APPROVING PETITION in In the Matter of the Petition of Minnesota Power and Light Company for Approval of Capital Structure Prior to the Issuance of Securities, Docket No. E-015/S-89-1116.

FINDINGS AND CONCLUSIONS

Minn. Stat. §216B.49 (1988) requires a public utility which wishes to issue stock or to take on indebtedness to apply to the

Commission for approval of the utility's capital structure. The statute cites certain issues which the Commission must address when deciding to reject or to approve the utility's application. The Commission must consider the nature of the business of the public utility, its credits and prospects, the possibility that the value of the property may change from time to time, the effect which the issuance shall have upon the management and operation of the company, and other considerations which the Commission as a matter of fact shall find relevant in ascertaining whether the amount of securities of each class is in reasonable proportion to each other and to the value of the utility's property.

In its consideration of MP's capital structure, the Commission finds that an increasing proportion of the Company's capital may be employed in businesses other than electric utilities. Without further information regarding those diversified investments, the Commission will be unable to assess the risk, if any, which diversification may pose to the regulated utility and the Company's ratepayers.

MP last filed a Diversification Report approximately three years ago, in February of 1987. Since that time, the Company has made further diversified investments and plans to consider such investments in the future. The Commission finds that the following information will enable the Commission to analyze the Company's diversified holdings in a proper manner:

1. A description of the business activities of BNI, Inc., Lake Superior Paper Industries (LSPI), and the Topeka Group, and any other subsidiaries or divisions of MP engaged in unregulated ventures;
2. The capitalization, revenues and earnings for 1989 and projected 1990 of each of the businesses described in part 1, expressed in dollars and as a percentage of total MP operations;
3. An explanation of how the start-up costs and continuing capital needs of the unregulated businesses are financed;
4. A description of the accounting and allocation procedures used to ensure separation of MP's regulated and unregulated activities and the extent to which there is a sharing of personnel, services, equipment, buildings, etc., between regulated and unregulated operations;
5. A discussion of the application of the affiliated interests statute, Minn. Stat. §216B.48 (1988) to MP's diversification activities;
6. A discussion of MP's strategy for future diversification and the projected impact of diversification on the Company as a whole over the next

five years; and

7. A discussion of the risks and benefits which MP perceives are borne by the regulated utility's ratepayers as a result of its diversification activities.

The Commission will require Minnesota Power to file the aforementioned informational filings within 45 days of the date of this Order. Interested parties who wish to respond will be required to do so within 15 days of the date of Minnesota Power's filing. When the final deadline has passed, the Commission will review all diversification information and comments and decide if it will take further action.

ORDER

1. Within 45 days of the date of this Order, Minnesota Power and Light Company shall file a complete Diversification Report, addressing the issues outlined above. This Diversification Report shall be served upon all intervenors in the Company's last general rate case.
2. Interested parties who wish to file responsive comments shall do so within 15 days of the date of filing of the Diversification Report.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)