MINNESOTA DEPARTMENT OF COMMERCE

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September 16, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G022/D-15-671

Dear Mr. Wolf:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

A Request by Greater Minnesota Gas, Inc. for Approval of Depreciation Certification.

The petition was filed on July 16, 2015. The petitioner is:

Kristine A. Anderson
Corporate Attorney
Greater Minnesota Gas, Inc.
202 S. Main Street
Le Sueur, Minnesota 56068

The Department recommends **approval with modification** and is available to answer any questions that the Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G022/D-15-671

I. SUMMARY OF GMG'S PETITION

On July 16, 2015, Greater Minnesota Gas, Inc. (GMG or the Company) filed for Approval of a Depreciation Certificate[1] (Petition) pursuant to Minn. Stat. 216B.11 and Minn. Rules, Parts 7825.0500 to 7825.0900. This submission is also required by the Minnesota Public Utilities Commission's (Commission) May 4, 2010 Order in Docket No. G022/D-10-78 which required GMG's next depreciation study to be filed by August 1, 2014 for GMG's third depreciation study.[2]

In its Petition, GMG requested "approval of depreciation and salvage rates that are consistent with the prior depreciation order."[3] In addition, GMG proposed to fund the salvage account by approximately $516,000 over a five-year period due to not implementing the Commission's May 4, 2010 Order.

GMG requested an effective date of January 1, 2015 for the depreciation rates.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) examined the:

- filing requirements;

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[1] Minnesota Rule 7825.0600, *Depreciation Certification*, states, in part, "The commission shall certify by order to the utility the depreciation rates and methods with it considers reasonable and proper."
[2] GMG was formed in 1995 and began installing mains and services in 1996. The Company came under the Commission's jurisdiction in October 2002 (see Docket No. G022/M-03-117). GMG's first depreciation petition was filed April 30, 2004 in Docket No. G022/D-04-671. The Company's second and most recent depreciation petition was filed on January 27, 2010 in Docket No. G022/D-10-78. GMG is required to file its depreciation study every five years since the Company uses the average service life method to calculate accruals rather than a remaining life technique.
[3] Petition, *Summary of Filing*.

- May 4, 2010 Order requirements;
- proposed changes to the lives and salvage values;
- proposed funding of the salvage account; and
- reserve ratio.

As discussed further below, the Department concludes that GMG's proposed service lives, salvage rates, and the resulting depreciation rates are reasonable. The Department also recommends that the Commission approve GMG's proposed funding of the salvage account.

A. FILING AND ORDER REQUIREMENTS

1. Filing Requirements

Minnesota Rules part 7825.0700 requires the following depreciation schedules and documentation for each year since the last certification:

- plant in service;
- analysis of depreciation reserve;
- summary of annual depreciation accruals;
- accounts studied and results;
- major future additions or retirements; and
- any additional documentation necessary to support findings of the study.

The May 4, 2010 Order also required GMG to include in its next five year study, detailed information for plant in service and the depreciation reserve beginning with the year 2009.[4] In its Petition, GMG provided detail for the years 2010 through 2014. Upon the Minnesota Department of Commerce, Division of Energy Resources' (Department) prompting, on August 3, 2015, GMG supplemented its filing (August 3, 2015 Supplement) with information for the year 2009.[5]

The Department reviewed GMG's Petition and concludes that with the August 3, 2015 Supplement, GMG provided the information needed to meet the filing requirements specified above.

2. Order Requirements

The Commission's May 4, 2010 Order required GMG to:

- include five years of detailed plant and reserve information beginning with the year 2009 in the Company's next depreciation study (discussed above);
- use specific depreciation rates effective January 1, 2010; and
- file its next five-year depreciation study by August 1, 2014.

[4] The data provided in the last depreciation study ended with the year 2008.
[5] In its August 3, 2015 Supplement, GMG also provided the 2009 Summary of Accruals and corrected errors in its proposed salvage to be adjusted over five years.

a. Due Date

As stated above, the Commission's May 4, 2010 Order required GMG to file its next five-year study by August 1, 2014. Without requesting an extension of time, the Company filed its Petition almost a year late on July 16, 2015. GMG explained how it became aware that the filing was tardy:[6]

> In fact, GMG's current team was unaware of the prior depreciation requirements and tardy filing until a Department staff member casually mentioned the late filing to GMG personnel while walking through the skyway following the April 23, 2015 Commission meeting. GMG is very appreciative that it was brought to the Company's attention; and, GMG hastened to investigate the situation and perform a depreciation study. GMG apologizes for the oversight; and, GMG recognizes that, as the Department noted in its prior comments, "[r]eceiving a timely five-year depreciation study plays an important role in ensuring that the depreciation expense filed in a rate case is accurate." (Comments of the Minnesota Office of Energy Security, Dkt. No. G022/D-10-78, March 19, 2010.)

GMG has filed late in other regulatory filings. Concerning the Company's depreciation filings, GMG was required to file its second depreciation filing by August 1, 2009. GMG did not file on that date and was prompted by the Department to file for an extension. GMG requested two extensions through November 14, 2009 and, without requesting any further extensions, filed on January 27, 2010.

Additionally, in GMG's 2014 Annual Gas Service Quality Report,[7] the Department observed that not only were the 2011, 2013, and 2014 Annual Gas Service Quality Report filings late filed, the majority of GMG's 2014 Cold Weather Rule reports[8] were late filed.[9] The Department concluded that quality control and oversight were lacking within GMG and recommended that the Commission require GMG "to obtain an independent audit of its data collection practices and procedures in place for regulatory compliance and provide the audit results to the Commission."[10] Further, the Department stated that the audit "firm should be independent of Greater Minnesota, have expertise in data collection, reporting, and regulated utility practices, and the audit should identify whether the Company's data collection and regulatory practices are reasonable, prudent, and consistent with standard utility practices.[11] Currently, this docket is pending a Commission decision.

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[6] *Id*.
[7] Docket No. G022/M-15-434.
[8] Docket No. E,G999/PR-14-02.
[9] Department's July 22, 2015 Comments, pages 1-2 and 5.
[10] Department's July 22, 2015 cover letter.
[11] *Id.*

The Department concludes that this audit would assist GMG to be punctual in its future depreciation filings.

b. Sale of Equipment

The May 4, 2010 Order also put GMG on notice that upon the sale of equipment, the Company should include all gains or losses in the depreciation reserve rather than in the income statement.[12] There was no mention in the Petition of the accounting for gains and losses.

The Department's review shows that in 2011, 2012, and 2014, there were retirements in General Plant, mainly in Transportation Equipment (about $82,000 of plant retired) and Office Furniture and Equipment (about $22,000 of plant retired), as follows:

Table 1: Retirements from 2009 Through 2014

General Plant	2011	2012	2014[13]	Total
Plant Retired	$51,688	$32,349	$25,791	$109,828
Reserve Retired	$45,774	$30,545	$24,291	$100,610
Undepreciated Amt.	$5,914	$1,804	$1,500	$9,218

The Department asked GMG to provide the FERC account(s) that the Company would use to report gains and losses. The Company replied that, "To the extent that GMG would have gains or losses to book, they would be booked in FERC Accounts 411.6 (gains) and 411.7 (losses)."[14] In order to verify GMG's response, the Department reviewed GMG's May 1 Annual Jurisdictional Reports.[15] No gains or losses were reported on the income statements during 2009 through 2014. The Company verified that "the transportation retirements in all three identified years were handled like those in prior years: the cost of a new vehicle in rate base was reduced by the associated trade-in."[16] Further, GMG stated that "[w]ith regard to office furniture retirement, there were no gains or losses, as it was simply a function of fully depreciated items being removed from the accounting system."[17] Although GMG admitted that it did not follow the May 4, 2010 Order's directive, the Company stated that "GMG is committed to ensuring that all necessary corrections are made to its depreciation and salvage accounting from 2015 forward."[18]

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[12] This recommended accounting for sales is different for regulated utilities than for non-regulated businesses. Nonregulated businesses account for sales on the income statement.
[13] The Department notes that in 2014, there was an adjustment (decrease) of $150,742 to Measuring and Regulating Station Equipment (Account 378). GMG explained that the Company paid contribution is aid of construction (CIAC) to Northern Natural Gas Pipeline Co. and Viking Transmission Co. in 2013 to construct two town border stations. In 2014, the final costs were settled and refunds of the CIAC overages were paid resulting in this adjustment.
[14] August 20, 2015 email.
[15] Filed in Docket Nos. E,G999/PR-10-04, 11-04, 12-04, 13-04, 14-04, and 15-04. See page 30 for the Statement of Income.
[16] August 20. 2015 email.
[17] *Id.*
[18] *Id.*

The Department concludes that based on its analysis, there is no issue regarding the previous sales of equipment since there were no gains or losses.

B. PROPOSED CHANGES

The May 4, 2010 Order approved GMG's proposed average service lives, salvage rates, and resulting depreciation rates except for:

- Town Border Station (TBS) Equipment;
- Distribution Regulators;
- Meters;
- Commercial Regulators; and
- Computer Equipment.

For those accounts the following average service lives (ASL) and salvage values (SV) and resulting depreciation rates were approved:

Table 2: Approved Depreciation Rates[19]

FERC	Description	ASL	SV	Rate
378	TBS Equipment	42	-21%	2.88%
378	Distribution Regulators	42	-21%	2.88%
381	Meters, Residential	30	0%	3.33%
381	Meters, Commercial	30	0%	3.33%
383	Regulators, Commercial	42	-35%	3.21%
391	Computer Equipment	6	0%	16.67%

GMG stated that the Company requested no changes to the prior depreciation rates ordered. The Company explained why no changes were proposed:[20]

> Due to GMG's limited historical experience, GMG has continued to rely upon the experience of more mature natural gas distribution companies as resources for examining average life and salvage values. Given the relative modernity of GMG's gas delivery system, GMG recommends that the previously ordered rates remain in place at this time.

Moreover, GMG stated that, "Since GMG still has not experienced significant system component replacement or retirement due to aging, it is not proposing any changes to established rates."[21] Regarding future additions or retirements, the Company stated that, "GMG does not anticipate any major future additions or retirements to its plant accounts that would likely have a material effect on the current certification results or proposal."[22]

[19] See the Department's Attachment A for a full listing of accounts.
[20] Petition, pages 3-4.
[21] Petition, page 4.
[22] Petition, page 5. GMG also noted that its current planned capital expenditures are discussed in detail in its 2015-2016 capital structure docket (Docket No. G022/S-14-1051).

During its review, the Department found that GMG actually did make two changes to its average service life values from the May 4, 2010 Order. See Department Attachment A for a summary of GMG's present and proposed service lives and salvage values. First, the Company combined the Residential Regulators and Commercial Regulators accounts.[23] This combination increased the Residential Regulators life by two years to match the Commercial Regulators life of 42 years. Second, GMG combined the Office Furniture and Equipment and Computer Equipment accounts.[24] This combination decreased the Office Furniture & Equipment life by two years to match the Computer Equipment life of 6 years. The Department does not object to either change since the changes are reasonable.

Based on its review, the Department recommends that the Commission approve GMG's proposed average service lives, salvage rates, and resulting annual depreciation rates.

C. PROPOSED FUNDING OF THE SALVAGE ACCOUNT

In its Petition, GMG explained that the Company did not use the ordered depreciation and salvage rates established in the May 4, 2010 Order:[25]

> Since the 2010 depreciation certification was received, GMG has undergone five substantial leadership changes; and, none of the executive or regulatory employees from 2010 remain at GMG. Unfortunately, the ordered depreciation and salvage rates were not incorporated into to GMG's financial methods; there was no record of the depreciation certification placed on GMG's continuing regulatory calendar; nor was any discussion about it ever passed down from one leadership team to the next.

GMG determined that the result of not following the May 4, 2010 Order was an underfunded depreciation reserve:[26]

> GMG's review of the depreciation certification history also led it to determine that the Company has not been funding a depreciation reserve at the required salvage rate as it should have been doing. GMG regrets that situation and this Petition sets forth a proposed means to appropriately fund the depreciation reserve without an adverse impact on GMG's ratepayers.

Further, GMG described its proposal as follows:[27]

[23] Both used Account No. 383.
[24] Accounts 390 and 391, respectively.
[25] Petition, page 3.
[26] Petition, page 3.
[27] Petition, page 4.

> . . . .GMG proposes that it adjust its depreciation schedule effective January 1, 2015 to bring it into accord with the schedule that the Commission ordered; and that, as new property is placed in service, the appropriate average service life be attached. The schedules attached hereto reflect adjustments that should have been made had GMG correctly applied the ordered depreciation schedule.
>
> . . . .The salvage account should have a balance of approximately $516,000 through the end of 2014. Since GMG was not accounting for a salvage reserve, GMG proposes that it fund the account for 2010 through 2014 over a five year period, in addition to placing the requisite annual amount in the depreciation reserve fund. GMG will agree that, in the event that it files a rate case, GMG will exclude the unrecovered salvage funding for 2010 through 2014 from the rate base in a future rate case. To that extent, GMG's ratepayers will not sustain any adverse impact as a result of GMG's error.

GMG provided a summary of annual depreciation accruals in its Attachment B (Proposed Depreciation and Salvage Rates) which showed an accumulated depreciation underage balance of $516,239. The Department reviewed the calculations of the accumulated salvage and found small calculation discrepancies in two accounts: House Regulators (Account 383) and Office Furniture and Equipment (Account 391), and the sign was reversed in Transportation Equipment (Account 392).[28] In its August 3, 2015 Supplement, the Company provided a revised Attachment B and stated that:[29]

> . . .in responding to the [Department's] informal discovery requests, GMG engaged in a closer review of the ancillary office furniture, house regulators, and transportation equipment assets. GMG determined that the calculations provided to it by the Department during the discovery process are reasonable. Therefore, GMG has recalculated its proposed salvage to be adjusted over 5 years. . . .

The revised accumulated depreciation variance increased from $516,239 to $584,624 as follows:

[28] GMG had a positive $32,528 where it should have been a negative $32,528.
[29] GMG's August 3, 2015 Supplement, page 1.

Table 3: Initial and Revised Accumulated Depreciation Variance

	Description	Initial Accumulated Depreciation Variance	Revised Accumulated Depreciation Variance
376	Mains	($327,259)	($327,259)
378	Meas. & Regulating Station Equip. –General	($33,986)	($33,986)
380	Services	($158,931)	($158,931)
382	Meter Installations	($25,501)	($25,501)
383	House Regulators	($3,090)	$444
391	Office Furniture & Equip.	$0	($6,831)
392	Transportation Equipment	$32,528	($32,560)
	Total	($516,239)	($584,624)

The Department reviewed the revisions and has no further adjustments to the calculations.

The Department also asked GMG to clarify its proposed accounting for funding the depreciation reserve and reporting requirements. The Company replied that:[30]

> Once the Commission approves the final rates and amount for retroactive salvage funding, GMG anticipates adding entries in its accounting system that are tied to the salvage fund and reimbursing the salvage fund in equal amounts for each of five years to reach the total retroactive funding requirement. In addition to that, GMG will fund the salvage account as required for each year from 2015 onward. GMG intends to book the entries annually. With regard to reporting requirements, the booked amount will be easily identified on the annual JAR [Jurisdictional Annual Report], so that does allow for confirmation that the account is being funded and that the correct entries have been made. Specifically, the JAR tabs for the RESERVE accounts will reflect the booked amounts in the Salvage column, and that amount will accumulate annually. Examples of how that would be reflected appear in those pages of Attachment A to the Petition that are identified as Retroactively Modified (of course, the actual amounts will depend on the final Order). Since the salvage funding will be identified in each JAR, I would imagine that covers the reporting requirements issue.

The Department calculated an annual amount of $116,925 per year ($584,624/5). The Department recommends that the Commission approve GMG's proposed salvage funding over a five-year period beginning January 1, 2015.

[30] August 20, 2015 email.

D. RESERVE RATIO

GMG's reserve ratios for 2009 through 2014 are presented below:

Table 4: Plant Balances and Reserve Ratios[31]

Year	Yr.-End Plant Balance[32]	Reserve Balance	Reserve Ratio[33]
	(a)	(b)	(c) = (b)/(a)
2009	$ 12,079,055	$ 1,743,432	14.43%
2010	$ 12,879,222	$ 2,027,276	15.74%
2011	$ 14,412,533	$ 2,278,983	15.81%
2012	$ 17,304,096	$ 2,608,058	15.07%
2013	$ 25,854,633	$ 3,063,456	11.85%
2014	$ 30,589,612	$ 3,675,748	12.02%

The above reserve ratios indicate the percentage of in-service property, plant and equipment depreciated or expensed by the end of 2014. In its Petition, GMG stated that "[i]mportantly, the plant in service detail demonstrates that the vast majority of GMG's plant is still in its infancy, as GMG's plant in service grew approximately 110% over a three period from $14,442,462 in 2012 to $30,641,263 in 2014."[34] The Department concludes that the reserve ratio is low due to the young age of the plant and is decreasing due to the plant increasing at a higher rate than the reserve.

III. RECOMMENDATIONS

The Department recommends that, effective January 1, 2015, the Commission:

- approve GMG's proposed average service lives, salvage rates, and resulting annual depreciation rates;
- require GMG to file its next five-year depreciation study by August 1, 2020, beginning with detail for the year 2015; and
- approve GMG's proposed salvage funding of $584,624 over a five-year period ($116,925/year) beginning January 1, 2015.

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[31] GMG's Attachment A as Filed, and Supplemental filing.
[32] Plant excludes Land and Land Rights (Account 374).
[33] The reserve ratios from 2004 through 2008 were as follows:
2004 8.36%;
2005 9.31%;
2006 10.70%;
2007 12.02%; and
2008 13.04%.
[34] Petition, page 4.

ATTACHMENT A

SUMMARY OF GMG'S PRESENT AND PROPOSED SERVICE LIVES AND SALVAGE VALUES

		Approved In 10-78 ASL	Proposed in 15-671 ASL	Approved in 10-78 Salvage	Proposed in 15-671 Salvage
Distribution Plant					
376	Mains, Plastic & Steel	50	50	-27	-27
378	TBS & Dist. Regulators	42	42	-21	-21
380	Services Lines, Plastic	50	50	-40	-40
381	Meters, Res. & Comm.	30	30	0	0
382	Meters Settings, Res. & Comm.	50	50	-35	-35
383	Regulators, Residential 1/	40	42	-35	-35
383	Regulators, Commercial	42	42	-35	-35
387	Other Equipment	8	8	0	0
General Plant					
390	Office Furnishings 2/	10	10	0	0
391	Computer Equipment	6	6	0	0
391	Office Furniture & Equipment 3/	8	6	0	0
392	Vehicles	3	3	30	30
397	Communication Equipment	10	10	0	0

1/ In GMG's Attachment B, *Proposed Depreciation and Salvage Rates*, the Company combined the Residential Regulators and Commercial Regulators accounts. This combination increases the Residential Regulators life by two years to match the Commercial Regulators life of 42 years.
2/ This account has had a zero balance since 2011.
3/ In GMG's Attachment B, *Proposed Depreciation and Salvage Rates*, the Company combined the Computer Equipment and Office Furniture and Equipment accounts. This combination decreases the Office Furniture & Equipment life by two years to match the Computer Equipment life of 6 years.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. G022/D-15-671

Dated this 16th day of September 2015

/s/Sharon Ferguson

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