

Staff Briefing Papers

Meeting Date **October 23, 2025**

Agenda Item 4*

Company Great Plains Natural Gas Co.

Docket No. G-004/D-25-243

**In the Matter of Great Plains Natural Gas Company's Petition for Approval of its
2025 Annual Depreciation Certification**

Issues Should the Commission approve Great Plains Natural Gas Company's annual
depreciation certification?

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 Relevant Documents

Date

Great Plains Natural Gas Company – Petition

May 30, 2025

Minnesota Department of Commerce – Comments

July 30, 2025

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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I. Background

On May 30, 2025, Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co. (Great Plains, GPNG, or the Company) filed its 2025 Annual Depreciation Study (Petition) requesting approval of the depreciation rates and parameters proposed in its 2025 Annual Depreciation Study. The petition was filed in conjunction with its consultant-preparer, Concentric Advisors. The Company's Petition included information about its 2024 capital asset additions, retirements, transfers, and adjustments as well as an update on its PVC replacement program.

On July 30, 2025, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments recommending that the Commission approve Great Plains Petition.

II. Relevant Statutes, Rules and Procedures

A. Minn. Stat. §216B.11. Depreciation Rates and Practices

The commission shall fix proper and adequate rates and methods of depreciation, amortization, or depletion in respect of utility property, and every public utility shall conform its depreciation, amortization or depletion accounts to the rates and methods fixed by the commission.

B. Minn. Rules, pts. 7825.0500-7825.0900. Depreciation Certification

Under these rules, Minnesota utilities are required to seek Commission approval of their depreciation rates and methods.¹ Every five years utilities must submit a comprehensive depreciation study seeking approval of depreciation rates for the next five years. Also, annual updates must be filed showing adjustments to accrued depreciation rates due to additions, retirements, and other activity.

1. Minn. Rules, pts. 7825.0600, subp. 1. Depreciation Certification

Depreciation practices applicable to all utilities. All electric and gas utilities shall maintain and have available for inspection by the commission upon request, adequate accounts and records related to depreciation practices as defined herein. Each utility has the prime responsibility for proposing the depreciation rates and methods that will be used. The commission shall certify by order to the utility the depreciation rates and methods which it considers reasonable and proper. Any allocation or adjustment of the depreciation reserve will require specific justification and certification by the commission.

Either the utility may submit or the commission may request a petition

¹ Department Comments at 2.

for depreciation certification because of unusual circumstances or unique situations.

2. Minn. Rules, pt. 7825.0600, subp. 2D & 3C. Depreciation Certification

... [All utilities] shall review their depreciation rates annually to determine if they are still generally appropriate. Depreciation certification studies shall be made so that all primary accounts [class A & B utilities] or all functional groups of plant accounts [class C & D utilities] have been analyzed at least every five years.

3. Minn. Rules, pt. 7825.0900. Petition for Certification Procedure

Depreciation rates and methods, once certified by order, are binding on all future rate proceedings and will remain in effect until the next certification or until the commission shall determine otherwise. . .

C. Commission Practice

Depreciation methods, practices and rates are evaluated in depth once every five years in a depreciation study provided by the utility and then reviewed annually, usually in a request for certification of the remaining lives of the utility's assets. The depreciation rates established in these proceedings are incorporated into the Company's revenue requirement and rates in a general rate proceeding. These stand-alone depreciation filings allow for a thorough examination of the Company's depreciation methods, practices and rates independent of the other issues examined and analyzed within a rate case. This is one of the main reasons for having separate depreciation filings.

III. Discussion

A. Great Plains' Petition

Great Plains' petition noted that the application of the proposed depreciation rates would result in an increase of \$359,464 over the rates established in Docket No. G-004/D-24-208² and the composite annual depreciation rate would rise to 3.13 percent compared to 3.08 percent in the previous docket.³

² In the Matter of Great Plains Natural Gas Co.'s Petition for Approval of its 2024 Annual Depreciation Study

³ Great Plains Petition at 1.



Table 1: Summary of Original Cost, Currently Approved Accrual Percentages and Amounts, and Updated Accrual Percentage and Amounts⁴

Plant Group/Accounts	Original Cost	2024 Annual Accrual		Updated Annual Accrual	
Transmission Plant	\$7,620,205	1.87%	\$140,801	1.86%	\$141,525
Distribution Plant	\$79,102,460	3.12%	\$2,168,883	3.19%	\$2,526,307
General Plant	\$7,429,173	3.94%	\$274,603	3.71%	\$275,919
TOTAL	\$94,151,838	3.08%	\$2,584,287	3.13%	\$2,943,751

Concentric Advisors (Concentric), Great Plains' consultant-preparer, stated that the purpose of this update was to determine the annual depreciation accrual rates and amounts for ratemaking purposes applicable to the actual surviving original cost as of December 31, 2024.

The annual depreciation accrual rates presented, according to Concentric, are based on the broad group straight line method of depreciation using the Average Life Group (ALG) procedure and were applied using the remaining life technique. Concentric pointed out that the calculations were based on the actual plant accounting ledger values as of December 31, 2024. Any variances between the actual book accumulated depreciation reserve and calculated accrued depreciation requirement are amortized over the composite remaining life of each group of assets.

Great Plains also reported on the progress of its PVC replacement program.⁵ The Company stated that, as of the end of 2024, approximately 61% of planned total mains and 64% of total services have been replaced. The Company commented that the previous year's report stated 59% of mains and 64% of services were completed. The discrepancy is due to the continual improvements to the Company's DIMP model, resulting in an increase in the quantity of identified PVC pipe.

B. Department Comments

The Department reviewed Great Plains' Petition for the following purposes:

- to determine if the Petition complied with all applicable statutes, rules, and past Commission orders;
- to evaluate the reasonableness of proposed depreciation proposals; and
- examine the 2024 capital asset additions, retirements, adjustments, and transfers, because these factors impact the development of depreciation rates.

1. Compliance with Statutes, Rules, and Filing Requirements

According to Minnesota Statutes, Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900, public utilities are required to seek Commission approval of their depreciation rates

⁴ ID., Appendix A, p. 1-1.

⁵ Great Plains Petition, Appendix A, p. 3-2.

and methods.⁶ At least once every five years utilities must file comprehensive depreciation studies using Straight Line depreciation (unless the utility can justify a different method). In 2022, Great Plains filed its last five-year depreciation study in Docket No. G-004/D-22-262. Additionally, the Company filed its 2024 annual depreciation certification in Docket No. G-004/D-24-208 and has continued to use the straight-line depreciation method.

The Department observed that Great Plains is applying the remaining life technique in its depreciation methodology. When the remaining life technique is used to depreciate group property, the underlying life and salvage factors may not change, but depreciation rates must be updated annually to reflect the passage of time. Additionally, the impacts to plant account activity, such as capital additions and retirements, must be accounted for in updating the assets remaining lives. The Petition proposed the current year update as required.

Consequently, the Department concluded that Great Plains has complied with the applicable statutes, rules, and filing requirements.

2. Compliance with Previous Commission Orders

The Department reviewed Great Plains' compliance with previous orders as follows:

First, Great Plains' Petition properly requested that its proposed depreciation rates be effective on January 1, 2025, and was based on December 31, 2024, plant and reserve balances.⁷

Second, regarding the Commission Order issued for Great Plains' 2018 annual depreciation study, the Company provided in its Petition an analysis of the accounts affected by its PVC replacement program and the Minnesota jurisdictional amounts for its gas additions, retirements, adjustments, and transfers for plant-in-service accounts.⁸

Third, the Commission's Order in Great Plains' 2019 and 2020 annual depreciation studies required the Company to continue to report the details of its building retirements in Account 390.0 General Structures and Improvements in future depreciation filings.⁹ The Department noted that Great Plains provided this information in Attachment B of this petition.

Fourth, the Commission Order for Great Plains' 2020 annual depreciation study required the Company to (1) continue to exclude Account 388.0 from future depreciation studies, (2) provide an update on the Company's PVC replacement program, and (3) in future depreciation filings use the updated format of Petition Table 2.¹⁰ The Department concluded that the Great Plains' Petition provided the information required by this Order.

⁶ Department Comments at 2-4.

⁷ Great Plains Petition at 1-2.

⁸ Department Comments at 4.

⁹ *ID.*

¹⁰ *ID.*



Fifth, the Commission Order for Great Plains' 2022 five-year depreciation study required the Company to use the Department's revised 2021 rates for accounts 378 and 392.2.¹¹ Great Plains' annual depreciation study continued to reflect these approved rates.

The Department concluded Great Plains' Petition complies with the Commission's prior orders.

3. Depreciation Methodology

The Department noted that through Great Plains' work with consultants, it has assigned statistical survivor curves¹² to most of the Company's group property accounts.¹³ The Department further observed that the Company also applied average service lives (ASLs) to most of its capital accounts, which are based on the statistical retirement analyses associated with the property groups in different accounts.¹⁴

The Department stated that, generally, Great Plains depreciated its assets using the straight-line method and Average Life Group (ALG or Broad Group) procedure applied on a remaining life basis. The Company uses depreciation software to calculate the ALG remaining life associated with each vintage (i.e. year) in which the Company capitalized costs under a given account. To compute the composite remaining life of a group property account, each vintage's remaining life is weighted by the proportion of the costs capitalized in that vintage to the total amount capitalized in the account, and then the weighted vintage remaining lives are added together.

4. Great Plains' Proposed Depreciation Parameters and Rates

a. Proposed Depreciation Parameters

Great Plain's most recent, five-year comprehensive depreciation study (Docket No. G-004/D-22-262) remains in effect.¹⁵ Great Plains proposed no changes to the parameters such as average service life, survivor curve, and net salvage assumptions found in the study, that serve as the basis for its proposed remaining lives and depreciation rates. The Department confirmed that the Petition's parameters agree with those of the comprehensive study.

b. Proposed Remaining Lives and Depreciation Rates

Remaining life is a function of average service life (ASL)/average life group (ALG), survivor curve (expected rate of depreciation), and the average age of the assets in an account.¹⁶ ASL may

¹¹ *ID.* at 5.

¹² In the context of utility depreciation, the survivor curve assigned to a capital asset account represents a probability distribution pertaining to the remaining useful life of the group of assets included in the relevant account.

¹³ Great Plains does not assign a survivor curve to accounts 375.0, 378.0, 381.0, and 383.0.

¹⁴ Department Comments at 5.

¹⁵ *ID.* at 5-6.

¹⁶ *ID.* at 6.



lengthen if new assets are added, generally. On average, one can expect ASL to decrease about one year of life per year. The Department reviewed the consultant's report showing each plant account's remaining life and depreciation rate and recommended that the Commission approve them.

c. Proposed Composite Depreciation Rates Analysis

The Department noted that the Company's annual depreciation expense estimate for 2025 is based on the plant-in-service balances as of December 31, 2024. As shown in Table 2, the newly proposed depreciation rates result in a theoretical total annual depreciation expense of \$2,943,751, or 3.13%, an increase of about \$360,000 from last year. The Company proposals would increase the composite depreciation rate for each major plant group between 2024 and 2025.

Table 2: Summary of Depreciation Expense at Current and Proposed Rates¹⁷

Plant Group	Original Cost	Composite Depreciation				Proposed % Increase (B-A)/(A)	Proposed \$ Increase (D-C)
		2024 Approved		2025 Proposed			
		Rate (A)	Amount (C)	Rate (B)	Amount (D)		
Transmission	\$ 7,620,205	1.87%	\$ 140,801	1.86%	\$ 141,525	0.51%	\$ 724
Distribution	\$ 79,102,460	3.12%	\$ 2,168,883	3.19%	\$ 2,526,307	16.48%	\$ 357,424
General	\$ 7,429,173	3.94%	\$ 274,603	3.71%	\$ 275,919	0.48%	\$ 1,316
All Plant	\$ 94,151,838	3.08%	\$ 2,584,287	3.13%	\$ 2,943,751	13.91%	\$ 359,464

These proposed increases resulted from a combination of the effects of 2024 capital asset additions, retirements, transfers, and adjustments as well as the outcomes of the statistical analyses.¹⁸

This theoretical estimate does not reflect the actual depreciation expense that Great Plains will book for 2025. The Company calculates depreciation expense on a monthly, not annual basis, and it will likely book some combination of capital asset additions, retirements, transfers, and adjustments during 2025, so the actual annual depreciation expense for 2025 will differ from the theoretical estimate.

The Department noted that since depreciation expense is established in a general rate case, Great Plains' ratepayers will pay the currently established rates throughout 2025, regardless of the Company's booked 2025 depreciation expense amount. The Department emphasized that the Commission's determinations in depreciation proceedings are for accounting purposes only and are not determinations for purposes of rates.

¹⁷ Department Comments at 7.

¹⁸ Petition Section 5, *Detailed Depreciation Calculations*.

5. 2024 Depreciation Calculations and the Corresponding Capital Asset Additions, Retirements, Transfers and Adjustments

Great Plains provided a summary of its 2024 plant activity in Table 3. The year-end 2024 gross plant balance is \$98,056,796, an increase of 10,369,800, or 11.8%, over the January 2024 beginning balance of \$87,686,996, as shown below.

Table 3: Plant Balance Activity Summary, January 2024 – December, 2024¹⁹

Account	Beginning Balance	Additions	Retirements	Transfers	Adjustments	Ending Balance
Distribution	\$69,417,232	\$11,072,888	\$(1,523,915)	\$(37,216)	\$176,449	\$79,105,438
General	7,011,686	774,186	(326,806)	22,590	(3,824)	7,477,831
Intangible	3,738,429	109,308	0	0	0	3,847,737
Transmission	7,519,649	0	0	106,141	0	7,625,790
Total	\$87,686,996	\$11,956,382	\$(1,850,722)	\$91,514	\$172,625	\$98,056,796

6. Plant Balance and Depreciation Provisions Over Time

Table 4 shows Great Plains' plant-in-service and depreciation provisions from 2020 to 2024. The depreciation reserve balance is also known as accumulated depreciation. The Department noted that the Company's overall reserve ratio has steadily decreased since 2020, meaning that plant assets are growing faster than the growth rate of accumulated depreciation, which is the composite depreciation rate.

Table 4: Plant Balance and Depreciation Reserve Summary 2020-2024²⁰

Year	Year-End Plant Balance	Increase in Plant Balance	Annual Depreciation Expense Books (\$)	Calculated Composite Depreciation Rate ²¹	Year-End Depreciation Reserve Balance	Increase in Depreciation Reserve Balance	Year-End Depreciation Reserve Ratio ²²
2024	\$98,056,796	\$10,369,800	\$2,851,575	2.91%	\$40,087,830	\$1,100,596	40.88%
2023	\$87,686,996	\$5,510,982	\$2,612,428	2.98%	\$38,987,234	\$2,257,823	44.46%
2022	\$82,176,014	\$6,043,720	\$2,422,711	2.95%	\$36,729,411	\$1,355,152	44.70%
2021	\$76,132,294	\$4,191,105	\$3,220,291	4.23%	\$35,374,259	\$1,518,388	46.46%
2020	\$71,941,189	\$3,425,574	\$3,083,610	4.29%	\$33,855,871	\$1,366,741	47.06%

7. Depreciation Expense Provision Calculations for 2024

The Department examined with a high-level analysis the reasonableness of Great Plains' 2024 depreciation expense provisions.²³ An implied depreciation rate was calculated for each

¹⁹ Department Comments at 7.

²⁰ *ID.* at 8.

²¹ Calculation (Annual Depreciation Expense Books/Year-End Plant Balance).

²² Calculation (Year-End Depreciation Reserve Balance/Year-End Plant Balance).

²³ Department Comments at 8-9.

account using the reported accruals and plant balances, and compared with the Company's approved rates for 2024. Based on this comparison, the Department concluded the 2024 depreciation expense provisions are reasonable.

8. Building Retirements

For 2024, Great Plains reported \$4,994 in building retirements related to the replacement of carpet, ceiling sheet rock, and an improperly latching walk-in door in Fergus Falls.²⁴ The Department expressed no concerns.

9. Update on PVC Replacement Program

Great Plains also provided an update on its continuing high rate of investment in mains and services due to its PVC replacement program. The Company has replaced 61% of total mains and 64% of total services slated for replacement. The Department recommended that the Commission continue to require Great Plains to provide program updates in its future depreciation studies.

10. Department Recommendations

The Department concluded that Great Plains' Petition is reasonable and compliant with applicable statutes, rules, and prior Commission orders. Therefore, the Department recommended Commission approve the Petition.

Specifically, the Department forwarded the following recommendations:

- Approve Great Plains' proposed depreciation parameters as summarized in Table 1 of Department comments and provided in detail in the Company's Attachment A, effective January 1, 2025.
- Require Great Plains to continue to exclude Account 388.0 – Asset Retirement obligations from its future depreciation studies.
- Require Great Plains to continue to provide an update on the Company's PVC replacement program in its future depreciation studies.
- Require Great Plains to file its next annual depreciation docket updated based on its annual review of remaining lives, salvage values, and vintage-year plant retirements and additions by June 1, 2026.
- Determine the depreciation rates approved herein are for accounting purposes and neither bind nor preclude modified depreciation in a general rate case proceeding.

²⁴ Department Comments at 9

IV. Staff Comments

Staff notes that utility plant depreciation diminishes net rate base over time, thus diminishing the return on assets, which is the basis of utility profitability. Therefore, the careful undertaking of depreciation studies is imperative for establishing the accuracy of the composite age and net valuation of plant assets. Great Plains' Petition is reasonable and compliant, so staff concurs with the Department's recommendation for Commission approval of Great Plains' Depreciation study.

V. Decision Options

1. Approve Great Plains' proposed depreciation parameters as summarized in Table 1 of Department comments and provided in detail in the Company's Attachment A, effective January 1, 2025. (Great Plains, Department)
2. Require Great Plains to continue to exclude Account 388.0 – Asset Retirement obligations from its future depreciation studies. (Department)
3. Require Great Plains to continue to provide an update on the Company's PVC replacement program in its future depreciation studies. (Department)
4. Require Great Plains to file its next annual depreciation docket updated based on its annual review of remaining lives, salvage values, and vintage-year plant retirements and additions by June 1, 2026. (Department)
5. Determine the depreciation rates approved herein are for accounting purposes and neither bind nor preclude modified depreciation in a general rate case proceeding. (Department)