division of energy resources
Minnesota Department of Commerce

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March 12, 2013

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Response Comments of Minnesota Department of Commerce, Division of Energy Resources to Great Plains Natural Gas' Reply Comments**
Docket No. G004/D-12-565

Dear Dr. Haar:

Attached are the Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) to Great Plains Natural Gas' (Great Plains) Reply Comments in the following matter:

Great Plains Natural Gas' Five-Year Depreciation Study.

With one exception described herein, the Department recommends that the Minnesota Public Utilities Commission approve Great Plains' proposed depreciation parameters and rates, effective January 1, 2013.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/sm
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G004/D-12-565

I. BACKGROUND

On June 1, 2012, Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc. (Great Plains or the Company) filed a five-year remaining-life depreciation study (the 2012 Depreciation Study) reflecting December 31, 2011 plant-in-service and depreciation reserve balances.

On January 4, 2013, the Minnesota Department of Commerce (Department) filed Comments that asked Great Plains to provide additional information. Specifically, the Department requested that Great Plains:

1. discuss in reply comments whether the depreciation reserves in the 2011 Jurisdictional Annual Report (JAR) have been adjusted to correct for the application of erroneous depreciation rates in the 2010 JAR,

2. describe in reply comments how remaining reserve balances in Accounts 305, 311, and 320 will be dealt with after all property in those accounts has been retired,

3. respond in reply comments to the Department's concerns about the proposed remaining life of Account 380.11,

4. describe in reply comments whether it petitioned for and received approval from the Minnesota Public Utilities Commission (Commission) of the transactions booked in

Account 390 related to the construction of the new administrative building and the sale of certain business and service structures, and

5. clarify in reply comments its proposed depreciation parameters for Accounts 305 and 311.

On January 24, 2013, Great Plains filed Reply Comments which address the Department's requests. Additionally, the Company disagreed with the Department's proposed amortization rate for Account 391.30, and requested a new effective date for the proposed depreciation parameters of January 1, 2013.

II. DEPARTMENT ANALYSIS

The Department concludes that Great Plains' responses to the first, third, and fourth requests listed above have satisfactorily resolved the Department's concerns. Below is a discussion of the Department's remaining concerns.

A. DISPOSAL OF PROPANE FACILITIES

The second and fifth requests listed above relate to the retirement and disposal of Great Plains' propane facilities. With respect to the fifth request, Great Plains stated in its Reply Comments that any questions surrounding the proposed depreciation parameters for Accounts 305 and 311 are now moot, as all property in these accounts has been retired and the Company is no longer accruing depreciation expense on these accounts. The Department agrees that these costs of removal and salvage rates no longer need to be determined.

However, while all the property has been retired from Accounts 305, 311, and 320, amounts related to cost of removal and salvage are expected to be booked to the accounts' reserves in the future because not all of the property has been disposed of. Therefore, the question of how those accounts' remaining reserves will be dealt with (the second request above) is still applicable. Normally, gains or losses associated with the retirement and disposal of property are simply added to or subtracted from the appropriate plant account's depreciation reserve, which decreases or increases future depreciation expense on property remaining in the account. This treatment gives ratepayers an opportunity to benefit from gains or pay for losses associated with specific plant; when a utility files a rate case, depreciation expense included in rates will be marginally lower than it otherwise would be after a gain on sale, or marginally higher after a loss. In the event that all property is retired from an account, its remaining reserve is usually allocated to other reserve accounts in the same functional group (in this case, Production Plant), which decreases or increases depreciation expense of those other plant accounts.

In this instance, however, the standard treatment of reserves cannot be applied; there will be no property left in the accounts, and no other accounts left in the Production Plant functional group to which the remaining reserves can be allocated. Great Plains stated in Reply Comments that its intention is to eliminate the remaining reserve balances in those accounts by recording any net gain or loss in Account 421, Miscellaneous Non-operating Income.

Rather than make a determination now, the Department recommends that the Commission require the Company to make an informational filing in this Docket reporting the final reserve balances for these accounts after the property is disposed of. At that time, it will be known whether or not the size of the balances are material, which the Department will consider in making a recommendation to the Commission regarding the final treatment of any leftover reserves. If the Company does experience a large gain or loss, the Commission may want to consider requiring the Company to (1) maintain the accounts' reserves on its books and amortize them over a specified period of time (say, ten years), or (2) allocate the remaining reserves to accounts in different functional groups with positive property balances. Either option will give ratepayers the opportunity to share in the benefits of the gain or the costs of the loss.

B. AMORTIZATION RATE FOR ACCOUNT 391.30

Table 5-391.3 of Great Plains' 2012 Depreciation Study contains the calculation of the amortization rate for Account 391.30. The table essentially illustrates a three-step process:

1. First, Great Plains calculates annual amortization amounts for each vintage-year separately, by dividing each vintage-year's un-amortized plant balance by its remaining life.

2. Second, Great Plains sums the vintage-year annual amortization amounts to arrive at a total account annual amortization amount.

3. Third, Great Plains divides that total account amortization amount by the total plant balance to calculate a total account amortization *rate*. This total account amortization rate is used as an input to calculate amortization expense in several other tables in the 2012 Depreciation Study.

As noted in the Department's Comments, Great Plains' calculation of the annual amortization amount for 2008 vintage property appears to contain an error which artificially inflates the annual amortization amount for vintage 2008 property in the account. The remaining life for the 2008 vintage property is less than one year, and when the un-amortized balance is divided by the remaining life, the resulting annual amortization amount is greater than the un-amortized balance. This apparent error flows through steps two and three, producing an inflated total account annual amortization amount and a total account amortization rate. Because the total amortization rate is incorrect, all of the other tables in the 2012 Depreciation Study that rely on it are also incorrect (e.g. Tables 1 and 2). To fix this cascade of errors, the Department's Comments proposed a revised total account amortization rate which incorporated a corrected 2008 vintage-year amortization amount.

In its Reply Comments, Great Plains disagreed with the Department's conclusion that the amortization rate is incorrect: Great Plains' stated:

> Account 391.30 is one of the general plant accounts that is amortized rather than depreciated and Great Plains uses a four year life, or 25 percent amortization rate, where all equipment in a vintage year is amortized over the four year period and ceases the amortization when the plant is fully amortized.[1]

The Department notes that this explanation is not consistent with Table 5-391.3 in the 2012 Depreciation Study. The calculation of the annual amortization amount for vintage-year 2008 property does not cease when the plant is fully amortized, as the annual amortization amount is greater than the beginning-of-year un-amortized balance. If Table 5-391.3 is an accurate representation of Great Plains' depreciation practices, Account 391.30 will be over-amortized.

The Department further notes that this exact same problem affected five plant accounts in Great Plains' 2005 Depreciation Study (Docket No. G004/D-05-866), four accounts in Great Plains' 2006 Depreciation Study (Docket No. G004/D-06-700), and one account in the 2011 Depreciation Study (Docket No. G004/D-11-499). In all of these past dockets, Commission Staff or the Department proposed to correct the errors in the exact same way the Department has proposed in this Docket. In the 2005 and 2006 dockets, there is no indication in the written record that Great Plains objected to the corrected amortization rates. In the 2011 docket, Great Plains stated in its reply comments that it agreed with the Department's recommended amortization rate. Additionally, in Great Plains' 2008 Depreciation Study, three plant accounts had vintage years with remaining lives of less than one year, and Great Plains calculated the amortization rates for each of those three accounts in the exact same way the Department has proposed in this Docket. Great Plains' has not explained what has changed in the last year that resulted in the Company changing its stated position that the proposed correction was appropriate.

It may be the case that Great Plains uses a different software system or program to calculate depreciation expense internally than is used in the Company's filed depreciation studies, with the result that the depreciation studies Great Plains files with the Commission every year are for

[1] Great Plains' Reply Comments, page 7.

illustrative purposes only. If this is the case, it may be that the mechanics of Great Plains' internal depreciation calculations are correct and slightly different than the calculations shown in Table 5-391.3. While it is possible that Great Plains created Table 5-391.3 in 2012 Depreciation Study solely for illustrative purposes, the Department emphasizes that it is imperative that the filed depreciation studies accurately reflect appropriate depreciation calculations.

Because Great Plains, in prior depreciation dockets, agreed that the method the Department recommends in this proceeding is correct, the Department recommends that the Commission approve an amortization rate of 14.27 percent for Account 391.30, as described in the Department's January 4, 2013 Comments.

C. REVISED PROPOSED EFFECTIVE DATE

Great Plains originally requested an effective date of January 1, 2012 for the depreciation parameters and rates proposed in the 2012 Depreciation Study. In it Reply Comments, Great Plains stated that it has closed its books for 2012 and is unable to reopen them. Therefore, Great Plains has requested to change the effective date of the proposed depreciation parameters and rates to January 1, 2013. The Department concludes that this new effective date is reasonable.

III. CONCLUSION

The Department recommends that the Commission:

1. Approve all of Great Plains' proposed depreciation parameters and rates with the exception of the proposed amortization rate for Account 391.30 and the treatment of Accounts 305, 311 and 320;

2. Approve an amortization rate of 14.27 percent for Account 391.30;

3. Require Great Plains to submit an informational filing either in this Docket or in Great Plains' subsequent depreciation filing, stating the reserve balances in Accounts 305, 311 and 320, after disposal of all property in those accounts is complete.

4. Approve Great Plains' requested effective date of January 1, 2013.

/sm

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
Response Comments

Docket No. G004/D-12-565

Dated this **12th** of **March, 2013**

/s/Sharon Ferguson

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