MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	November 12, 2020	Agenda Item **1

Company	Great Plains Natural Gas Co. (Great Plains), a Division of Montana-Dakota Utilities Co.		
Docket No.	**G-004/D-20-511**		
	In the Matter of Great Plains Natural Gas Co.'s Petition for Approval of its 2020 Depreciation Certification		
Issues	Should the Commission approve Great Plains Natural Gas Co.'s 2020 annual depreciation certification?		
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✓ **Relevant Documents**	**Date**
Great Plains Natural Gas Co. - 2019 Annual Depreciation Study	May 29, 2020
Department of Commerce - Comments	July 14, 2020
Great Plains - Reply Comments	July 24, 2020

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I. Statement of the Issues

Should the Commission approve Great Plains Natural Gas Co.'s 2020 annual depreciation certification?

II. Introduction

On May 29, 2020, Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co. (Great Plains, GPNG, or the Company) petitioned the Commission for approval of the depreciation rates and parameters proposed in its 2020 Annual Depreciation Study. The petition was filed in conjunction with its consultant-preparer, Concentric Advisors.

Additionally, Great Plains' petition included information about the Company's 2019 capital asset additions, retirements, transfers, and adjustments as well as an update on its PVC replacement program.

On July 14, 2020, the Minnesota Department of Commerce, Division of Energy Resources (the Department) filed its Comments recommending that the Commission approve Great Plains petition as modified

On July 24, 2020, Great Plains submitted Reply Comments agreeing with the Department's recommendations to approve its petition with modifications. However, Great Plains stated that it did not agree with the Department's recommendation to separately depreciate each of its buildings.

III. 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

1. Minn. Rules, pt. 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 for depreciation certification because of unusual circumstances or unique situations.

2. Minn. Rules, pt. 7825.0600, subp. 2 & 3. 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.

IV. Background

On May 29, 2020, Great Plains submitted a petition for approval of a Depreciation Certificate 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) February 22, 2019 Order, in Docket No. G-004/D-18-369.

Great Plains requested an effective date of January 1, 2020 for the proposed depreciation rates.

According to Great Plains, this Annual Depreciation Study updates its five-year study from Docket No. G-004/D-17-450 to reflect the plant-in-service and book depreciation reserve balances as of December 31, 2019. The application of the proposed depreciation rates result in an increase of $16,498 from the current rates determined in Docket No. G-004/D-19-376, resulting in a proposed composite depreciation rate of 4.36 percent versus the current rate of 4.32 percent.

Great Plains stated that its study continues to use the approved depreciation parameters for Account 366.1 – Transmission Structures; pursuant to the Commission's Order issued on January 15, 2020 in Docket No. G-004/D-19-376. Great Plains noted that it had no retirements in Account 390 – General Structures and improvements during 2019. Additionally, GPNG provided an annual update to its PVC replacement program.

V. Parties' Comments

A. Great Plains' Petition

Great Plains' petition stated that the application of the proposed depreciation rates would result in an increase of $16,498 over the rates established in Docket No. G-004/D-19-376 and the composite annual depreciation rate would rise slightly to 4.36 percent compared to 4.32 percent in the previous docket.

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

Plant Group/Accounts	Original Cost	Annual Accrual	201[9] [1]	Annual Accrual	Updated
Transmission Plant	$7,208,270	2.08%	$149,932	2.10%	$151,354
Distribution Plant	$51,208,025	4.66%	$2,386,294	4.68%	$2,394,176
General Plant	$7,178,888	4.30%	$308,692	4.40%	$315,886
Total	**$65,595,184**	**4.32%**	**$2,844,918**	**4.36%**	**$2,861,416**

GPNG's consultant preparer Concentric Advisors (Concentric) stated 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, 2019. 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. The calculations were based on the actual plant accounting ledger values as at December 31, 2019. 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. The Company stated that, as of the end of 2019, approximately 45% of planned total mains and 54% of total services have been replaced.

[1] Staff noted: that Table 1 refers to "Annual Accrual 2018" but the corrected heading should read "Annual Accrual 2019".

B. Department's Comments

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

- to determine if the Petition complied with all applicable statutes, rules, and past Commission orders;
- to evaluate the reasonableness of proposed depreciation rates and parameters; and
- to examine 2019 capital asset activity (additions, retirements, transfers, and adjustments).

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 and methods. 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 2017, Great Plains filed its last five-year depreciation study in Docket No. G-004/D-17-450. Additionally, the Company filed its 2019 annual depreciation certification in Docket No. G-004/D-19-376 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 instant Petition proposed the current year update as required.

In compliance with Minnesota Rule 7825.0700, Subpart 2, the Company reported that it does not anticipate any major upcoming capital additions or retirements that would impact the results of the instant depreciation study.[2]

The Department concluded that the Company has complied with the applicable statutes, rules and filing requirements.

2. Compliance with Prior Commission Orders

The Department reviewed Great Plains' compliance with previous orders and determined that:

- GPNG's petition properly requested that its proposed depreciation rates be effective on January 1, 2020 and was based on December 31, 2019 plant and reserve balances.

[2] Department Attachment 5.

- The Company provided an analysis of accounts affected by its PVC replacement program.[3]
- GPNG submitted a summary of additions, retirements, adjustments, and transfers for plant-in-service accounts and their associated accumulated depreciation accounts per Minnesota Rule 7825.0700.[4]
- The Company provided Minnesota-jurisdictional amounts for gas plant in-service accounts.[5]
- GPNG supplied details for its 2019 building retirements in Account 390 – General Structures and Improvements.

The Department concluded that Great Plains has complied with past Commission orders.

3. Great Plains' Depreciation Methodology

a) Statistical Determination of Asset Lives and Retirement Patterns

The Department observed that GPNG, through its consulting firm, used statistical survivor curves to determine remaining lives and retirement patterns. Great Plains has assigned statistical curves to most of the Company's group property accounts[6] and applies average service lives (ASLs) to the different asset groups.[7] The Department noted that while the ASL of a group property account will remain consistent between years, the assets' remaining lives will tend to change each year due to impacts of account activity (additions, retirements, transfers, and adjustments) in addition to the results of Concentric's statistical analyses.

b) Depreciation Calculations

Generally, Great Plains depreciates its assets using the Straight Line method and Average Life Group (ALG or Broad Group) procedure applied on a remaining life basis. Starting with GPNG's 2018 annual depreciation study, the Company calculated remaining lives using a Vintage Group approach. Specialized software was used to calculate the ALG remaining life for each vintage under each group property account.[8] In calculating the composite remaining life, each vintage

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[3] Petition, pages 3-2

[4] Petition, Tables 2 and 3

[5] Great Plains' 2019 Jurisdictional Annual Report was filed on May 1, 2020 under Docket No. 20-04.

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

[7] The ASL is documented in the upper right corner of Section 5, Detailed Depreciation Calculations, of the Petition.

[8] The remaining lives for several accounts are based at least in part on other factors. For example, the remaining lives for accounts 376.0 – Mains, 380.0 – Services, 381.0 – Meters and Meter Installations, and 383.0 – House Regulators are impacted by the progression of Great Plains' ongoing PVC replacement program.

remaining life is weighted by the proportion of the vintage capitalization amount to the total amount and then the resulting weighted vintage remaining lives are added together.[9]

Even though GPNG's underlying computations for depreciation seem complex, the Company has continued to calculate its proposed depreciation rates in a manner that is typical of the Straight Line depreciation methodology.[10]

4. Great Plains' Proposed Depreciation rates and parameters

Great Plains, in the instant Petition, proposed depreciation rates (effective January 1, 2020) that results in a composite rate of 4.36 percent compared to the approved 2019 depreciation rate of 4.39 percent. While Great Plains did not explicitly state in its Petition that the Company is proposing initial depreciation parameters for Account 393.0 – Stores Equipment,[11] it does not appear that Great Plains' last 5-year depreciation study established depreciation parameters for this particular account. The Department therefore reviewed the depreciation parameters presented in the instant Petition for Account 393.0 as if the Company were requesting to establish initial depreciation parameters for the account.

a) Proposed Depreciation Parameters for Account 393.0 – Stores Equipment

The Department observed that in its 2019 plant activity, Great Plains reported capitalization of $13,897[12] under account 393.0 – Stores Equipment, an account which, according to Great Plains' recent depreciation studies, has maintained a balance of $0 in capitalized costs over the last several years.[13]

Great Plains noted in a response to a Department information request that its proposed survivor curve and net salvage value for Account 393.0 is consistent with the industry's typical treatment of assets capitalized under this account.[14] The Department reviewed the depreciation parameters applied to Account 393.0 by several other regulated Minnesota utilities and found that the Commission previously approved Account 393.0 depreciation parameters for CenterPoint Energy Minnesota Gas (CenterPoint) that closely align with those requested by

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[9] Calculation procedure: SUM OF [(original surviving capitalized cost for vintage X / total surviving capitalized cost for all vintages under account Y) x (remaining life of vintage X)] = composite remaining life for account Y.

[10] See the annual depreciation accrual and original cost figures documented under columns titled "Annual Accrual" and "Original Cost," respectively, in Section 5 Detailed Depreciation Calculations, of the Petition.

[11] Great Plains stated that Account 393.0 "…had not previously been used at the time of the 2019 annual technical update." Petition, page 2-2.

[12] Petition Table 2, page 5-33

[13] Great Plains did not report a positive capital balance for Account 393.0 in its last three depreciation studies in Docket Nos. G-004/D-17-450, G-004/D-18-369, and G-004/D-19-376.

[14] Department Attachment 1

Great Plains in the instant Petition. Specifically, for CenterPoint's Account 393.0, the Commission recently approved a 15-SQ survivor curve, 0 percent net salvage rate, and 15- year probable service life, all of which closely match the Company's current proposals for Account 393.0.[15]

The Department therefore concluded that the depreciation proposals for Account 393.0 are reasonable and recommended that the Commission approve Great Plains' Account 393.0 depreciation parameters, as detailed in Petition Table 1 and at Petition page 5-26. The Department expects Great Plains to include Account 393.0 in its next 5-year depreciation study, and, at that time, when a more comprehensive analysis of the account is available, we intend to closely examine the analyses and information that support the Account 393.0 depreciation parameters.

b) Proposed Depreciation Rates

The Department observed that Great Plains calculated depreciation rates at the individual account level. As such, the Department considered the depreciation rates as they are presented in Table 1 of the Petition under the column titled "RATE." The following Table 2 summarizes by major plant category the composite depreciation rates proposed for 2020 compared to the corresponding rates approved in the Company's 2019 annual depreciation study, Docket No. G-004/D-19-376.

Table 2: Summary of Approved and Proposed Depreciation Rates for Great Plains[16]

Plant Group	**Composite Depreciation Rate Percentage (%)**		Proposed Percentage (%) Increase (B – A) ÷(A)
	2019 Approved (A)	2020 Proposed (B)	
Transmission	2.08	2.10	<1
Distribution	4.66	4.68	<1
General	4.30	4.40	2
All Plant	4.32	4.36	<1

Table 1 above shows that Great Plains' proposals would slightly increase the composite depreciation rate for each major plant group between 2019 and 2020. These proposed increases resulted from a combination of the effects of 2019 capital asset additions, retirements, transfers, and adjustments as well as the outcomes of the statistical analyses documented in Great Plains' Petition Section 5, Detailed Depreciation Calculations.

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[15] In its December 5, 2019 Order in Docket No. G-008/D-19-307, the Commission approved CenterPoint's depreciation proposals, which included a 15-SQ survivor curve, 0% net salvage rate, 15-year probable service life, and 6.67% depreciation rate for Account 393.0 (see Exhibit 3, page 3 and Exhibit 6, year 2017 data in CenterPoint's May 7, 2019 initial filing for these depreciation parameters). In the instant Petition, Great Plains' has proposed a 15-SQ survivor curve, 0% net salvage rate, 15-year Average Service Life, and 6.90% depreciation rate for Account 393.0 (see Petition Table 1 and page 5-26).

[16] Department Comments, July 14, 2020, "Department Table 1", p. 6

The Department observed that GPNG annual depreciation expense estimate for 2020 is based on the plant-in-service balances as of December 31, 2019. When applied to the December 31, 2019 plant-in-service balances, the newly proposed depreciation rates result in a theoretical total annual depreciation expense of $2,861,416.[17] This 2020 annual depreciation expense figure is a theoretical estimate, and the amount does not reflect the actual depreciation expense that Great Plains will book for 2020. The Company actually 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 2020, so the actual annual depreciation expense for 2020 will differ from the theoretical estimate. For example, Great Plains booked an actual depreciation expense provision of $2,863,934[18] for 2019, and, as the Department would expect, this figure differs from the 2019 theoretical estimate of $2,639,460.[19]

In addition, the Department verified in its review that Great Plains has not requested modifications to the previously established average service lives, salvage rates, or survivor curves assigned to the Company's accounts. Because the Petition is an annual depreciation update, rather than a 5-year comprehensive depreciation study, the Department concluded that it is appropriate for these depreciation parameters to remain unchanged.

The Department noted that since depreciation expense is established in a general rate case, Great Plains' ratepayers will pay the currently established rates throughout 2020, regardless of the Company's booked 2020 depreciation expense amount. The Department emphasized that the Commission's determination in depreciation proceedings are for accounting purposes only and are not a determination for purposes of rates.

Based on its review therefore, the Department recommended that the Commission approve Great Plains' proposed depreciation rates, as outlined in Table 1 of the Petition (and above on page 3).

5. Great Plains' 2019 Depreciation calculation and the corresponding capital asset addition, retirements, transfers and adjustments

The Department provides Tables 2 and 3 of the Petition, which present a summary of Great Plains' 2019 capital asset additions, retirements, transfers, and adjustments as well as the Company's 2019 schedule of accumulated depreciation, respectively.

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[17] Petition Attachment A, "Summary of Original Cost, Currently Approved Accrual Percentages and Amounts, p. 1-1

and Updated Accrual Percentage and Amounts"

[18] Ibid, "Table 3 - SCHEDULE OF ACCUMULATED PROVISION FOR DEPRECIATION-GAS", p. 5-40.

[19] Table 1 of Great Plains' May 31, 2019 initial filing for its 2019 depreciation study in Docket No. G004/D-19-376.

a) Plant Balance and Depreciation Provisions Over Time

Table 3 (below) summarizes the Company's plant-in-service and depreciation provisions between 2013 and 2019. The Department retrieved the data in Table 3 from Great Plains' prior year depreciation studies.

This table shows that, over time, the Company's depreciation reserve (i.e. accumulated depreciation) ratio has generally trended downward, with notable reserve ratio decreases between 2014 and 2015 as well as between 2017 and 2018. These changes in Great Plains' reserve ratio, according to the Department, are consistent with the Company's continued investment in its system and the especially significant plant-in-service increases reported for 2015 and 2018. Additionally, the table demonstrates that the Company's annual booked depreciation expense has trended steadily upward, a pattern that is logical in the context of the increasing plant-in-service balances and composite depreciation rates.

Table 3: Great Plains' Plant-in-Service and Depreciation Provision Summary 2013-2019[20]

Year	*Year-end Plant Balance ($)*	*Increase in Plant Balance ($)*	*Annual Depreciation Expense Booked ($)*	*Approved Composite Depreciation Accrual Rate*	*Year-end Depreciation Reserve Balance[21] ($)*	*Increase in Depreciation Reserve Balance ($)*	*Year-end Depreciation Reserve Ratio*
2019	68,515,615	4,495,793	2,863,934	4.32%	32,489,130[22]	2,000,551	47.42%
2018	64,019,822	8,403,694	2,540,871	4.31%	30,488,579	63,186	47.62%
2017	55,616,128	1,231,739	2,245,003	4.31%	30,425,393	1,273,926	54.71%
2016	54,384,389	6,029,130	2,073,206	3.81%	29,151,467	2,196,537	53.60%
2015	48,355,259	6,894,986	1,828,985	3.78%	26,954,930	993,921	55.74%
2014	41,460,273	2,984,892	1,515,365	3.65%	25,961,009	942,482	62.62%
2013	38,475,381	n/a	1,404,487	3.65%	25,018,527	n/a	65.02%

[20] Department Comments, July 14, 2020, "Department Table 2", p. 8.

[21] For better comparability among all years documented in Department Table 2, the depreciation reserve balances exclude Risk Work in Progress (RWIP) reserve amounts.

[22] The year-end 2019 depreciation reserve shown in Department Table 2 does not match the depreciation reserve shown in Petition Table 3, because Petition Table 3 included a depreciation reserve balance for Account 388.0 – ARO (Asset Retirement Obligation). In response to a Department information request, Great Plains clarified that it should have excluded Account 388.0 from the depreciation study (Department Attachment 3). Therefore, the Department excluded the Account 388.0 depreciation reserve balance from the corresponding 2019 total documented in Department Table 2. → ($33,861,539 - $1,372,409) = 32,489,130. ⍰ Figures in the preceding calculation are shown in Petition Table 3, page 5-40.

b) Depreciation Expense Provision Calculations for 2019

As part of its review the Department performed an analysis of the 2019 expense provisions and concluded that the 2019 amounts in the table are reasonable

6. Great Plains' Building Retirements

Great Plains reported no 2019 building-related retirements in Account 390.0 – General Structures and Improvements.[23] The Department concluded that the Commission-ordered annual analysis of the Company's building retirements is not needed in the current Petition. The Department however discussed a different set of recommendations for the depreciation of Account 390 in future depreciation filings in the following section.

7. Depreciation Methodology for Account 390.0 – General Structures & Improvement

The Department recommended in recent proceedings that three Minnesota utilities, Minnesota Energy Resources Corporation – MERC – (Docket No. G011/GR-17-563), Minnesota Power (Docket No. E-015/D-18-544), and Xcel Energy (Docket No. E,G-002/D-19-490) develop proposals to depreciate the significant building assets included in Account 390.0 – General Structures & Improvements on an individual, rather than group basis. The Department said that the building depreciation issues pertaining to Account 390.0 for these other Minnesota utilities are also relevant to Great Plains. Consequently, the Department made related recommendations in the instant Comments.

8. Group Depreciation – Appropriate Applications and Potential Issues

A single average service life is estimated and assigned to a property group under a group depreciation methodology. This is done with the understanding that there will be dispersion in the actual ages reached by the property units in the group. This means that the grouped units will retire at various ages. A property unit that retires prior to reaching the ASL, theoretically, will cause the utility to incur a loss, since the unit would be under-depreciated and have a positive book value at the time of its retirement. On the other hand, a property unit that retires later than the ASL, theoretically, will cause the utility to incur a gain, because it would be over depreciated and have a negative book value at the time of its retirement. The following quotation highlights the assumption of group depreciation, that the impact of early property unit retirements will be offset by the impact of late property unit retirements:

> Under group depreciation, no gain or loss is recognized for retirement of individual assets. Upon retirement of an asset from the group, the cost of the asset is debited to the accumulated depreciation account and credited to the asset account. Any gross salvage received for the retired asset is credited to the accumulated depreciation account and any cost of removal is debited to the accumulated depreciation account. Under group depreciation, since the accumulated

[23] Petition, Table 2, page 5-33.

depreciation relates to the entire group rather than to specific assets within the group, no gain or loss is recognized. This assumes that the group depreciation rate is accurate for the group as a whole and that the cost of the retired asset, net of gross salvage and cost of removal, is being fully provided for in the accumulated depreciation account.[24]

9. Great Plains' Account 390.0 Depreciation

The Department stated that since it has the same concerns around Account 390.0 depreciation for Great Plain as it does for other Minnesota utilities, it asked[25] Great Plains to explain how Great Plains would:

- Determine which structures should be removed from the group to be depreciated separately, and which should remain in the group.
- Allocate the existing depreciation reserve among structures that should be removed from the larger group and those that remain in the group.
- Determine the remaining lives for structures that should be removed from the group and the remaining life for the group.[26]

In its response, GPNG explained that its Account 390.0 includes eight buildings, ranging in cost from $100,000 to $900,000. The Department observed that the description of the Company's Account 390.0 assets provides a good example of property that would be more reasonably depreciated on an individual, rather than group basis. The Department further stated that unlike the accounts with large volumes of low-cost property units to which group depreciation is more typically applied, Great Plains' Account 390.0 contains a relatively small number (eight) of relatively high-cost ($100,000 – $900,000) property units (buildings). As such, the Department asserted that the characteristics of the Company's Account 390.0 make it vulnerable to the previously discussed group depreciation issue: an early retirement of one or more of the eight buildings could significantly impact the account's depreciation, and it would be unlikely that these impacts would be offset or balanced by other retirements within the account. Individually depreciating the structures in Account 390.0 would resolve the potential issues that could arise from applying group depreciation to the relevant assets. Therefore, the Department concluded that transitioning away from a group depreciation methodology is appropriate for Account 390.0.

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[24] Public Utility Depreciation Practices. (August, 1996). National Association of Regulatory Utility Commissioners.

[25] Department Attachment 4.

[26] The bulleted explanations requested by the Department are consistent with the Account 390.0 depreciation information (1) requested of Minnesota Power in the Commission's January 14, 2019 *Order* to in Docket No. E015/D-18-544 and (2) provided by Xcel Energy in its October 10, 2019 Reply Comments in Docket No. E,G002/D-19-490.

The Department further made the following assertion:

> While Great Plains expressed a preference to continue applying group depreciation to its assets in Account 390.0, the Company explained that, if required to contemplate a departure from group depreciation for Account 390.0, it would plan to remove all of the buildings out of the group and depreciate each of the account's eight buildings individually. Great Plains also explained that, if it were to depreciate the Account 390.0 buildings individually, it would allocate the account's existing depreciation reserve among the structures by essentially recreating the depreciation reserve for each structure based on the structure's in-service date(s) and historical depreciation rates. The Company would then ratably allocate among the eight buildings any difference between the recreated depreciation reserves of the individual structures and the account's total existing depreciation reserve. Great Plains' knowledge of the original capital cost of each building in Account 390.0 will also likely prove useful in this process of depreciation reserve allocation. To determine appropriate remaining lives for its eight building structures, Great Plains indicated that it would use both the expertise of its external depreciation consultants and the Company management.[27]

The Department stated that the Company's suggested approach to transitioning Account 390.0 from a group to an individual depreciation methodology, as outlined in Department Attachment 4, appears methodical and reasonable. Therefore, the Department recommended that, regarding Account 390.0, the Commission require Great Plains to do the following in its next annual depreciation update:

- Move the structures (buildings) in Account 390.0 out of their group, such that they can be depreciated individually going forward.
- Propose allocations of the existing depreciation reserve among the structures in Account 390.0.
- Propose individual remaining lives for the structures in Account 390.0.

10. Update on PVC Replacement Program

Great Plains reported in the current petition that it has replaced approximately 45 percent of total mains and 54 percent of total services as of the end of the 2019. During 2019, Great Plains documented replacing 61,302 feet of mains and 698 services.[28] Great Plains estimated that it has 555,927 feet of mains and 4,399 services to be replaced through the program. The Company also indicated that it currently anticipates completing the planned replacements within the PVC

[27] Department Attachment 4.

[28] Petition, page 3-2.

program term and will address any adjustment to the program timeline in the Company's next comprehensive depreciation study.[29]

The Department observed that GPNG PVC replacement program is particularly relevant to the depreciation rates of the following distribution plant accounts.[30]

- 378.0 – Measuring and Regulating Station Equipment General
- 381.0 – Meters & Meter Installations
- 383.0 – House Regulators

Additionally, the Department stated:

> As explained in the Company's prior 5-year depreciation study,[31] in 2011[32] Great Plains initiated a 15-year PVC Replacement program, part of which involves visiting customer sites to replace meter bars, house regulators, and older meters that cannot be refurbished. Therefore, the depreciation rates developed for these accounts reflect the planned PVC replacement program's impact on the existing assets' retirement. The current Petition proposes to continue using the same depreciation rates initially approved by the Commission in Great Plains' most recent 5-year depreciation study;[33] this proposal is also consistent with the depreciation rates approved for the relevant accounts in the Company's 2018 and 2019 annual depreciation studies.[34]

Department Table 4 on the next page shows the depreciation rates approved for accounts 378.0, 381.0, and 383.0 between 2013 and 2019. The depreciation rates for these accounts are based on the PVC replacement program period or phase and its progression over time.[35] The Department notes that it is plausible for the depreciation rates to remain unchanged between years, as Great Plains has proposed in its current Petition for 2020.

[29] See Department Attachment 2.

[30] This is not an exhaustive list of accounts that may be affected by the PVC replacement program. Rather, the prospective depreciation rate calculations for these accounts may be especially sensitive to new investments made through the program, because these accounts have smaller plant balances relative to other impacted accounts, such as 376.0 and 380.0.

[31] See Department's October 2, 2017 *Comments*, pages 4 and 5, in Docket No. G-004/D-17-450.

[32] See Direct Testimony of Patrick Darras in Docket No. G004/GR-15-879, Exhibit 10, page 10.

[33] Docket No. G-004/D-17-450.

[34] Docket Nos. G-004/D-18-369 and G-004/D-19-376.

[35] Docket No. G-004/D-17-450.

Table 4: Depreciation Rates Approved for Great Plains' Accounts 378.0, 381.0 and 383.0[36]

Year	**Approved Depreciation Rate (%)**		
	Account 378.0	*Account 381.0*	*Account 383.0*
2013	2.70	7.49	5.38
2014	5.11	8.05	6.14
2015	2.83	8.14	6.38
2016	2.83	8.14	6.38
2017	12.55	9.91	6.62
2018	12.55	9.91	6.62
2019	12.55	9.91	6.62

The Department concluded that using the previously approved depreciation rates for these accounts for 2020 is reasonable. The Department however said that it expects Great Plains to adjust the depreciation rates as needed to reflect changes associated with the relevant asset replacements. Subsequently, the Department recommended that the Commission continue to require Great Plains to provide an update on the Company's PVC replacement program in its future depreciation studies.

11. Other Miscellaneous Items

The Department observed that in Table 2 of the Petition, Great Plains did not separately document certain capital adjustments that the Company recorded in 2019 and assigned to prior year capitalizations. Instead, the Department said that Great Plains netted these adjustments for prior year capitalizations with other 2019 plant activity. In response to a Department information request, Great Plains provided a revised Petition Table 2 that separately documented the adjustments associated with prior year capitalizations and did not net the adjustments with the 2019 capital addition, transfer, or retirement figures. This updated version of Petition Table 2 allowed the Department to tie the 2019 plant activity, including the adjustments assigned to earlier years, to the Company's detailed depreciation calculations in Section 5 of the Petition. The Department concluded that the updated version of Table 2 provides a more complete and clear view of the Company's plant activity. Consequently, the Department recommended that the Commission require Great Plains to use the updated format of Table 2 in future depreciation filings.

12. Department's Conclusion and Recommendations

The Department concluded that Great Plains' Petition complies with the applicable statutes and Commission orders, and that the Company's depreciation proposals in the instant docket are reasonable. Therefore, the Department recommended the Commission:

[36] Department Comments, July 14, 2020, "Department Table 3", p. 13.

- Approve Great Plains' Account 393.0 depreciation parameters, as detailed in Table 1 of the Petition and at Petition page 5-26.

- Approve Great Plains' proposed depreciation rates, as outlined in Table 1 of the Petition, with an effective date of January 1, 2020.

- Require Great Plains to continue to exclude Account 388.0 – Asset Retirement Obligations from its future depreciation studies.

- With regard to Account 390.0, require Great Plains to do the following in its next annual depreciation update:

    - Move the structures (buildings) in Account 390.0 out of their group, such that they can be depreciation individually going forward.
    - Propose allocations of the existing depreciation reserve among the structures in Account 390.0.
    - Propose individual remaining lives for the structures in Account 390.0.

- 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 use in its future depreciation filings the updated format of Petition Table 2, as described in Department Attachment 6.

The Department emphasizes that the Commission's determination in depreciation proceedings are for accounting purposes only and are not a determination for purposes of rates.

C. Great Plain's Reply Comments

In its reply comments, Great Plains agreed with the Department's recommendations; except the Department's recommendation to separately depreciate each of its buildings.

Great Plains suggested that the recent Commission decision (Docket No. D-18-369) requiring the Company to provide detailed information regarding building retirements adequately achieves the Department's goal.

VI. Staff Comments

Staff appreciates the efforts by Great Plains to provide updated information on its capitalized asset plans and activities. Staff agrees with the Company's and the Department's recommendations to approve the 2020 Annual Depreciation Study and associated depreciation rates and parameters, as well as future reporting on building retirements and GPNG's PVC replacement program.

Regarding the disputed issue of separately depreciating buildings in Account 390 General Structures and Improvements, staff tends to agree with the Department that individually depreciating buildings rather than using the group depreciation method better fits the nature of the high value assets being depreciated.

Staff also notes that Great Plains stated that its Structures and Improvements consists of "only eight buildings in 5 towns in Account 390 and these building range in cost from $100,000 to $900,000 each". Further, the Company "would recommend all buildings be depreciated separately as having two depreciation methodologies for such a small group would be administratively burdensome"[37]. Given the limited information in this response from GP to the Department's IR No. 7, the Commission might want to ask both the Department and Great Plains how the Company plans to separate the highest value buildings into separately depreciable asset and what group assets would remain in Account 390 after the high value buildings are taken out of Account 390.

Please see below for a summary of recent Commission actions related to group versus individual deprecation for Account 390 General Structures and Improvements.

Summary of Commission Actions on Account 390 General Structures and Improvements

Utility	Docket #	Ordering Point	Notes
Minnesota Energy Resources Corporation	M-19-377 GR-17-563	Docket 19-377, 1/8/20 Order, Ordering Point (OP) 4. MERC shall identify new or existing buildings that exceed a total book value of $1,000,000 in its future depreciation filings. In carrying out the requirement in this paragraph, MERC shall:	Docket 17-563, ALJ Report, 9/21 18, paragraph 261, p. 42: [T]he Administrative Law Judge recommends approving MERC's proposed accounting treatment of the old Rosemount headquarters, albeit with a proviso: The Commission should also require MERC to propose a set of depreciation practices and adjustments for its next rate case so as to

[37] Department Comments, July 14, 2020, IR No. 7, Attachment 4, p. 2 of 2.

Utility	Docket #	Ordering Point	Notes
		a. Use the North Central Region Gas Utility Construction January 2019 Structures and Improvements Index to adjust the threshold annually to recognize the impact of year-over-year inflation. b. Apply the threshold at the time of building acquisition, construction or improvements based upon the original cost of the building.	separately depreciate large assets, like office buildings. In the interests of transparency to the rate-paying public, it is best to draw MERC's justifiable reliance upon the earlier acquiescence to its group accounting practices to a close.
Minnesota Power	18-544	1/14/19 Order, OP 6. Required Minnesota Power to include in its next depreciation petition a proposal to depreciate the largest structures included in plant account 390 Structures and Improvements individually, while continuing to apply group depreciation to the smaller structures in the account, that explains how Minnesota Power will: A. determine which structures should be removed from the group to be depreciated separately, and which should remain in the group; B. allocate the existing depreciation reserve among structures that should be removed from the larger group and those that remain in the group; C. determine the remaining lives for structures that should be removed from the group and the remaining life for the group.	MP reported that its four largest buildings in Account 390 account for $45.3 million or 62% of the total account.

Utility	Docket #	Ordering Point	Notes
Minnesota Power	19-534	4/6/20 Order, OP 6. The Commission hereby approves Minnesota Power's proposal to separate and independently depreciate twelve buildings in Account 390.0, while continuing to apply a group depreciation methodology to the remaining assets in Account 390.0 as outlined in Appendix B of the Company's petition.	
Xcel	19-490	12/13/19 Order, OP 9. Required Xcel to include the following regarding Account 390 – Structures & Improvements in its 2020 Transmission, Distribution, and General Accounts Depreciation filing: a. A finalized proposal detailing which structures should be removed from the group to be depreciated separately, and which should remain in the group. b. A finalized proposal for the allocations of the existing depreciation among the structures removed from and remaining in the grouped property in Account 390. c. Proposed remaining lives for both the structures that should be removed from the group and the remaining life for the group.	

VII. Decision Alternatives

Instant Petition

1) Approve Great Plains' Account 393.0 depreciation parameters, as detailed in Table 1 of the Petition and at Petition page 5-26. (Great Plains, DOC)

AND

2) Approve Great Plains' proposed depreciation rates, as outlined in Table 1 of the Petition, with an effective date of January 1, 2020 (Great Plains, DOC)

OR

3) Do not approve Great Plains Natural Gas Co.'s proposed 2020 Annual Depreciation Study.

Future Depreciation Filings

4) For Account 390.0, require Great Plains to do the following in its next annual depreciation update (DOC, GP opposes):

   a) Move all the structures (buildings) in Account 390.0 out of their group and depreciate them individually, such that they can be depreciated individually going forward.
   b) Propose allocations of the existing depreciation reserve among the structures in Account 390.0.
   c) Propose individual remaining lives for the structures in Account 390.0.

OR

5) For Account 390.0, require Great Plains to do the following in its next annual depreciation update (Staff alternative):

   a) Move only the largest and highest value structures (buildings) in Account 390.0 out of their group and depreciate them individually, such that they can be depreciated individually going forward.
   b) Propose allocations of the existing depreciation reserve among the structures in Account 390.0.
   c) Propose individual remaining lives for the structures in Account 390.0.
   d) After removing individual buildings, identify the accounting treatment for any remaining Account 390 assets.

OR

6) For Account 390.0, do not require Great Plains to move all structures in Account 390.0 out of their group and depreciate them individually. (GP, DOC opposes).

7) Require Great Plains to continue to exclude Account 388.0 – Asset Retirement Obligations from its future depreciation studies. (Great Plains, DOC)

AND

8) Require Great Plains to continue to provide an update on the Company's PVC replacement program in its future depreciation studies. (Great Plains, DOC)

AND

9) Require Great Plains to use in its future depreciation filings the updated format of Petition Table 2, as described in Department Attachment 6. (Great Plains, DOC)

GREAT PLAINS NATURAL GAS CO.

TABLE 5. REVISED SUMMARY OF SERVICE LIFE AND NET SALVAGE ESTIMATES AND CALCULATED ANNUAL AND ACCRUED DEPRECIATION RELATED TO THE RECOVERY OF AVERAGE ORIGINAL COST IN GAS PLANT AS OF DECEMBER 31, 2019

- TOTAL -

ACCOUNT	DESCRIPTION	ESTIMATED SURVIVOR CURVE	NET SALVAGE PERCENT	SURVIVING ORIGINAL COST AS OF 12/31/2019	CALCULATED ACCRUED DEPRECIATION	BOOK RESERVE	ANNUAL ACCRUAL AMOUNT	ANNUAL ACCRUAL RATE	REMAINING LIFE
TRANSMISSION PLANT									
365.2	RIGHTS OF WAY	50-R2.5	0	158,152	103,645	126,496	1,173	0.74	17.2
366.0	TRANSMISSION STRUCTURES	85-S1	-5	16,588	894	636	597	3.60	28.1
367.0	TRANSMISSION MAINS	50-R3	-20	6,157,037	1,367,768	1,566,791	128,098	2.08	40.7
369.0	MEAS & REG STATION EQUIPMENT	40-R0.5	-10	876,492	183,529	244,197	21,486	2.45	32.4
TOTAL TRANSMISSION PLANT				**7,208,270**	**1,655,836**	**1,938,120**	**151,354**	**2.10**	
DISTRIBUTION PLANT									
374.2	RIGHTS OF WAY	50-R2.5	0	17,654	9,664	9,531	360	2.04	22.6
375.0	DISTR. MEAS & REG STATION STRUCTURES	N/A	-5	41,684	N/A	29,152	1,184 [1]	2.84	N/A
376.0	MAINS	46-R3	-55	22,399,380	10,238,402	10,739,049	715,097	3.19	32.4
378.0	MEAS & REG STATION EQUIP-GENERAL	N/A	-25	516,366	N/A	440,875	64,804 [2]	12.55	N/A
379.0	MEAS & REG STATION EQUIP-CITY GATE	28-R3	-5	531,624	165,884	152,957	21,335	4.01	19.7
380.0	SERVICES	39-R3	-75	18,721,170	9,193,713	10,151,903	750,419	4.01	28.1
381.0	METERS & METER INSTALLATIONS	N/A	-25	7,740,363	N/A	5,142,832	767,070 [3]	9.91	N/A
383.0	HOUSE REGULATORS	N/A	-5	1,040,233	N/A	422,928	68,863 [3]	6.62	N/A
385.0	INDUSTRIAL MEAS. & REG. STATION EQUIPMENT	40-S4	0	168,412	22,358	21,976	4,228	2.51	34.7
387.1	CATHODIC PROTECTION EQUIPMENT	25-R3	0	19,642	4,461	4,175	816	4.16	19.3
387.2	OTHER EQUIPMENT	30-R3	0	11,498	9,871	11,498	-	-	4.2
TOTAL DISTRIBUTION PLANT				**51,208,025**	**19,644,353**	**27,126,876**	**2,394,176**	**4.68**	
GENERAL PLANT									
390.0	GENERAL STRUCTURES & IMPROVEMENTS	45-R4	0	2,663,723	717,265	860,669	51,821	1.95	32.9
391.1	OFFICE FURNITURE & EQUIPMENT	16-SQ	0	80,566	53,954	53,608	5,124	6.36	5.3
391.3	COMPUTER & ELECTRONIC EQUIPMENT	4-SQ	0	3,179	1,987	3,179	-	-	1.5
392.1	TRANSPORTATION EQUIPMENT - TRAILERS	12-R1	10	22,349	13,307	20,114	-	-	4.1
392.2	TRANSPORTATION EQUIPMENT	7-L2	20	1,768,600	567,166	706,338	154,890	8.76	4.2
393.0	STORES EQUIPMENT	15-SQ	0	13,897	463	-	958	6.90	14.5
394.0	TOOLS, SHOP, & GARAGE EQUIPMENT	20-SQ	0	891,444	303,682	301,409	43,998	4.94	13.2
396.1	POWER OPERATED EQUIPMENT - TRAILERS	6-L0	65	146,003	11,097	30,401	4,395	3.01	4.7
396.2	POWER OPERATED EQUIPMENT	6-L0	65	1,183,871	66,388	240,112	33,371	2.82	5.0
397.0	COMMUNICATION EQUIPMENT	18-SQ	0	351,597	226,774	227,211	19,058	5.42	6.4
398.0	MISCELLANEOUS EQUIPMENT	25-SQ	0	53,659	24,422	22,786	2,271	4.23	13.6
TOTAL GENERAL PLANT				**7,178,888**	**1,986,505**	**2,465,827**	**315,886**	**4.40**	
TOTAL GAS PLANT STUDIED				**65,595,184**	**23,286,694**	**31,530,823**	**2,861,416**	**4.36**	

PLANT NOT STUDIED		
301.0	ORGANIZATION COSTS	5,006
302.0	FRANCHISE COSTS	73,680
303.0	INTANGIABLE ASSETS	2,784,524
365.0	LAND	5,585
374.0	LAND	2,978
389.0	LAND & LAND RIGHTS GENERAL	48,659
TOTAL PLANT		68,515,615

Notes:

1 Interim Retirement Rate. Service lives vary.
2 Based upon anticipated district regulator change out / eliminations.
3 Based upon 20 ERT battery life and remaining PVC program term 2016 - 2026.

All currently approved rates include salvage portion.