COMMERCE DEPARTMENT

December 7, 2017

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. G011/D-17-442

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 Minnesota Energy Resources Corporation (MERC or the Company) for Approval of its 2017 Five-Year Review of Depreciation Certification

The petition was filed on May 31, 2017. The petitioner is:

> Amber S. Lee
> Regulatory and Legislative Affairs Manager
> Minnesota Energy Resources Corporation
> Suite 200
> 1995 Rahncliff Court
> Eagan, MN 55122

Based on its review, the Department concludes that the proposed average service lives, net salvage values, and resulting depreciation rates are supported by the record and appear to be reasonable. The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** MERC's proposal.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ DALE V. LUSTI
Financial Analyst

DVL/lt
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/D-17-442

I. SUMMARY OF MERC'S PETITION

On May 31, 2017, Minnesota Energy Resources Corporation (MERC or the Company) filed a Petition requesting the Minnesota Public Utilities Commission's (Commission) approval and certification of its proposed changes to depreciation rates and methods, effective January 1, 2017. This filing is required by Minn. Stat. §216B.11 and Minn. R. 7825.0500 through 7825.0900 and is MERC's third five-year depreciation review of depreciation statistics for Transmission, Distribution, and General plant.[1] MERC's depreciation studies were conducted by Gannett Fleming Valuation and Rate Consultants, LLC (consultant). The current lives and depreciation rates effective January 1, 2016, were approved by the Commission in the annual remaining life update filed in Docket No. G011/D-16-490 (Docket 16-490).

II. DEPARTMENT ANALYSIS

The Commission requires utilities to file five-year depreciation studies to provide a more in-depth analysis of the lives and salvage values of plant in service. As discussed below, the Minnesota Department of Commerce, Division of Energy Resources (Department) examined the Petition for reasonableness of the proposed changes to plant lives and salvages. Average Service Lives (ASL) along with survivor curves are the underlying parameters used in a depreciation study which determine the average remaining lives (RL) that are used along with the net salvage value (SV) to calculate depreciation accrual rates. These underlying parameters are typically addressed only in five-year depreciation studies but may be addressed in annual filings as needed.[2] According to the consultant, the scope of the depreciation study included: [3]

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[1] MERC's first five-year depreciation study was filed in Docket No. G007,011/D-08-614 (Docket No. 08-614). MERC's second five-year depreciation study was filed in Docket No. G007,011/D-12-533 (Docket No. 12-533).
[2] Remaining life studies, done in the intervening years, adjust the remaining lives for the passage of time, as well as for the previous year's addition and retirement activity.
[3] Petition, Part I-2.

> The service life and net salvage estimates resulting from the study were based on informed judgment which incorporated analyses of historical plant retirement data as recorded through 2016, a review of Company practice and outlook as they relate to plant operation and retirement, and consideration of current practice in the gas industry, including knowledge of service lives and net salvage estimates used for other gas companies.

The Department's analysis includes the following sections:

- depreciation filing requirements;
- depreciation proposals including:
  - changes to average service lives and salvages,
  - use of functional composite depreciation rates, and
  - the effect of MERC's proposals on depreciation expense;
- historical reserve ratios.

A. FILING REQUIREMENTS

Minnesota Rule 7825.0700 requires the following depreciation schedules and documentation:

- 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 Department's review confirms that MERC substantially complied with the filing requirements in Minnesota Rule 7825.0700. Regarding future additions or retirements, MERC stated that "Depreciation studies rely on historical activity to develop depreciation parameters. Future activity does not modify historical results but rather assists in the application of judgement when selecting final depreciation parameters."[4] In response to Department Information Request No. 1, MERC described its plans to extend plant lives for the five-year period 2017 to 2022.[5] The Company stated the following:

[4] Petition, pages 11-12.
[5] Attachment 1 includes MERC's responses to all of the Department Information Requests.

> MERC continues to experience an increased level of investment particularly in distribution mains, services, and station accounts resulting in increased plant additions as a result of regular system improvements. Additionally, MERC will experience increased investment as a result of the approval of the Rochester Natural Gas Extension Project under Dockets G-011/M-15-895 and G-011/M-16-315. Depreciation studies rely on historical activity to develop depreciation parameters. Forecasted activity does not modify historical results but rather assists in the application of judgement when selecting final depreciation parameters.

In response to Department Information Request No. 7, MERC explained that its ongoing plan for the Minnesota Office of Pipeline Safety's (MNOPS) Legacy Pipeline Replacement Program would not affect the ASLs proposed in 2017. The Company stated:

> … MERC has been working on a legacy pipe replacement program to eliminate the pipe material with the highest risk for leaks, reaching the end of its useful life or is no longer able to be repaired due to obsolescence. MERC completed it[s] bare steel program in 2015. This program targeted known bare steel pipe. As MERC finds any additional bare steel, the replacement projects are added to the next year's capital replacement project. In addition, as the existence of other obsolete materials becomes known, MERC adds the replacement of these materials to its capital plan for the upcoming year.
>
> MERC's bare main replacement program as well as replacement of other materials is not expected to affect the average service life as these ongoing replacements do not represent a significant portion of MERC's total infrastructure.

B. DEPRECIATION PROPOSALS

1. Proposed Implementation Date

MERC requested that the depreciation rates be approved as of January 1, 2017.[6]

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[6] Petition's Summary of Filing.

The Department notes that depreciation rates are generally approved retroactive to the beginning of the year in which the depreciation filing was made. Therefore, the Department recommends that the Commission approve MERC's proposal as of January 1, 2017 with the next annual remaining life update due June 1, 2018.

2. Proposed Changes to ASLs and SVs

The Department compared MERC's approved ASLs and net SVs to proposed ASLs (Department Attachment 2) and net SVs (Department Attachment 3). As provided in MERC's Petition, Department Attachment 4 shows MERC's proposed change in depreciation expense.[7] Below, the Department discusses the changes proposed to ASLs and SVs in Transmission, Distribution and General plant.

a) Transmission Plant

1) Mains

The $104,734 annual depreciation accrual decrease in Mains (Account 367.10) is a result of MERC's proposed average service life increase (from 50 to 65 years) and decreased negative net salvage (from -45% to -30%).

Salvage value is the value an asset will have after it has been fully depreciated. A positive net salvage might indicate, for example, that an asset could be sold for scrap. When the cost of removal exceeds gross salvage, a negative net salvage occurs. A decrease in negative SV decreases depreciation expense while an increase in negative SV increases depreciation expense.

The Department concludes that the proposed changes to ASL and SV in Account 367.10 are reasonable.

2) Measuring and Regulating Station Equipment (M&R)

The $45,848 annual depreciation accrual increase in M&R (Account 369.30) is a result of MERC's proposed average service life decrease (from 45 to 30 years), increased negative net salvage (from -5% to -30%) and a lower reserve-to-plant ratio.

The Department concludes that the proposed changes to ASL and SV in Account 369.30 are reasonable.

[7] Petition, Part VI-9, Table 3.

b) Distribution Plant

The largest change in depreciation accrual is in the Distribution Plant. The net dollar impact is a decrease in annual depreciation expense of $1,292,318.[8] The majority of the depreciation expense changes are in the following accounts:

- Services (Account 380.00) decrease of $783,732;
- Mains (Account 376.00) decrease of $641,642;
- M&R Station Equipment (Account 378.00) increase of $152,711;
- M&R Station Equipment – City Gate (Account 379.00) increase of $138,429; and
- Meters (Account 381.00) decrease of $115,512.

Below, the Department discusses each of these proposals.

1) Services

The $783,732 annual depreciation accrual decrease in Services (Account 380.00) is primarily due to a longer life estimate (from 50 years to 56 years).

Based on its analysis, the Department concludes that a five-year increase in life appears reasonable since the statistical analysis supports an ASL of 56 years.

2) Mains

The $641,642 annual depreciation accrual decrease in Mains (Account 376.00) is a result of MERC's proposed decreased negative net salvage (from -45% to -30%). This decrease in net salvage mirrors that proposed for Transmission Plant Mains. The Department concludes that the decrease is reasonable.

3) M&R Station Equipment

The $152,711 annual depreciation accrual increase in M&R Station Equipment (Account 378.00) is a result of MERC's proposed shorter life estimate (from 44 to 35 years), an increased negative net salvage estimate (from -10% to -35%) and a lower reserve-to-plant ratio as of December 31, 2016.[9] For these reasons, the Department concludes that the proposed changes are reasonable.

[8] See Department Attachment 4 for the proposed accrual increases and decreases.
[9] See Department Attachment 5 for the detailed calculation.

4) M&R City Gate Equipment

The $138,429 annual depreciation accrual increase in M&R Station Equipment – City Gate (Account 379.00) is a result of MERC's proposed shorter life estimate (from 40 to 35 years), an increased negative net salvage estimate (from -10% to -35%) and a lower reserve to plant ratio as of December 31, 2016.[10]

Based on MERC's explanation of the changes in life estimate and salvage value, the Department concludes the proposed change is reasonable.

5) Meters

The $115,512 annual depreciation accrual decrease in M&R Station Equipment (Account 381.00) is primarily due to a longer remaining life as of December 31, 2016. The remaining life is longer as a result of the age of surviving assets and the change in type curve from an S2 to an S1.

Based on MERC's studies, the Department agrees that the proposal is reasonable.

c) General Plant

1) Transportation Equipment and Trailers

For General Plant, the net $109,868 depreciation expense increase is largely related to Transportation Equipment (Account 392.10 includes cars, trucks, and cargo vans and Account 392.20 includes trailers). MERC proposed no change to the ASL of Account 392.10, but did propose a decrease in salvage value from 25% to 20%. For Account 392.20, MERC proposed an increase to the ASL from 15 years to 16 years and a decrease in salvage value from 30% to 15%.

The Department is not opposed to the reduced ASL change for Account 392.2 or the reduced positive salvage value changes for both 392.1 and 392.2, which are based on the salvage value study.

2) Structures and Improvements

For Structures and Improvements (Account 390.00), MERC proposed to increase the ASL for Buildings Minor from 42 to 45 years, and to modify the proposed salvage value from -5% to -10% for both Buildings Major and Minor.

[10] *Ibid*.

The Department is not opposed to this ASL change since the statistical analysis supports 42 years for minor buildings.

The Department does not oppose the proposed SV change.

3) Proposal to Continue Use of Functional Composite Depreciation Rates

In MERC's most recent 5-Year Study in Docket No. G007,011/D-12-533, the Commission approved MERC's proposal to use composite depreciations rates as follows:

> The Commission hereby approves MERC's proposal to use functional depreciation rates for asset classes that arise in the future for which no depreciation rate is currently approved or for asset classes that are fully depreciated but may have future investment. The rates may be used only until MERC files its next five-year depreciation study, or upon separate filing by MERC requesting certification of a new rate.[11]

MERC in the current study proposes to continue using functional composite depreciation rates in the manner described above in the Commission's Order.

MERC's proposed composite rates for transmission and distribution plant will change from 2.91% to 2.35% and from 2.43% to 2.13% respectively; and for general plant will change from 4.78% to 5.38%.[12]

It is reasonable to continue to use the functional composite depreciation methodology as previously approved by the Commission in the previous 5-Year Study, as updated with data in the current 5-Year Study.

4) Effect of Proposal on Depreciation Expense

The estimated 2017 effect of MERC's proposed rates compared to the approved rates based on the gas plant in service as of December 31, 2016, is as follows:

> Using December 31, 2016, depreciable balances, the effect of the recommended depreciation rates on annual depreciation expense is a decrease of approximately $1,241,337 as compared to current

[11] July 29, 2013 ORDER CERTIFYING DEPRECIATION RATES AND METHODS WITH MODIFICATION, REQUIRING FILING, Page 6, Ordering Paragraph 5.
[12] Petition, page 8.

rates approved in the 2016 Annual Remaining Update in Docket No. G011/D-16-490.[13]

As indicated above, the Department examined each of MERC's proposals for reasonableness.

C. HISTORICAL RESERVE RATIOS

In prior depreciation studies, the Commission requested a history of the utility's reserve ratios. The plant balances and reserve ratios for the last five years are presented below:

MERC-Total

Year	Yr. End Plant Balance	Reserve Balance	Reserve Ratio
2016	$457,139,354	$181,931,990	39.80%
2015	$433,003,662	$179,903,012	41.55%
2014	$387,595,237	$163,946,597	42.30%
2013	$364,122,740	$157,655,080	43.30%
2012	$348,303,769	$154,415,261	44.33%

The above reserve ratios[14] indicate the percentage of plant depreciated or expensed by the end of each calendar year. The numbers indicate that MERC has been adding more plant than retiring plant over time. As of the end of 2016, approximately 39.80 percent of MERC's plant was expensed.

III. DEPARTMENT CONCLUSION AND RECOMMENDATION

Based on its review, the Department notes that the proposed average service lives, net salvage values, and resulting depreciation rates are supported by the record and appear to be reasonable**.** The Department notes that the Commission's determination in depreciation proceedings are for accounting purposes only and are not a determination for purposes of rates. Due to MERC's pending rate case (G011/GR-17-563) that appears to be largely capital driven, the Department plans to review depreciation lives related to capital investments in the rate case. The Department recommends that the Commission:

- require the next five-year study due by June 1, 2022;
- approve MERC's proposed lives and net salvages;

[13] Petition, pages 6-7.
[14] As detailed in Department Attachment 6.

- approve MERC's proposal to continue the use of functional composite depreciation rates:
  - for asset classes that arise in the future for which no depreciation rate is currently approved, or
  - for asset classes that are fully depreciated but may have future investment;

  Such composite rates should be used only until MERC's next depreciation study, or upon separate filing by MERC requesting certification of a new depreciation rate.

/lt

Lusti, Dale (COMM)

From:	Stastny, Kristin <KStastny@Briggs.com>
Sent:	Monday, October 09, 2017 4:50 PM
To:	MN_COMM_Utility Discovery; Lusti, Dale (COMM)
Cc:	Lee, Amber S; Seth S. DeMerritt - WEC Energy Group Inc. (ssdemerritt@integrysgroup.com); Wuyts, Tina E
Subject:	MERC's Responses to Department Information Request Nos. 1-8, Docket No. G011/D-17-442
Attachments:	MERC Response to DOC IR No. 5 Docket 17-442.pdf; MERC Response to DOC IR No. 6 Docket 17-442.pdf; MERC Response to DOC IR No. 7 Docket 17-442.pdf; MERC Response to DOC IR No. 8 Docket 17-442.pdf; MERC Response to DOC IR No. 1 Docket 17-442.pdf; MERC Response to DOC IR No. 2 Docket 17-442.pdf; MERC Response to DOC IR No. 3 Docket 17-442.pdf; MERC Response to DOC IR No. 4 Docket 17-442.pdf

Good afternoon,

Attached, please find Minnesota Energy Resources Corporation's responses to the Department's information request Nos. 1-8 in the above-referenced docket.

Kristin Stastny
Shareholder

BRIGGS AND MORGAN

Briggs and Morgan, P.A.
Direct: 612.977.8656
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Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: G007/D-17-442 ☐Nonpublic ☒Public
Requested From: Tina E. Wuyts, MERC Date of Request: 9/29/2017
Type of Inquiry: Financial Response Due: 10/9/2017

Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

Request Number: **1**
Topic: Planned Plant Life Extensions

Request:

For each year, 2017 to 2022, describe MERC's plans to extend plant lives including:

a) the location of the plant;

b) the reasons for extension;

c) the estimated costs of the upgrades;

d) the reasons for extending the life; and

e) all other useful information about the planned life extension.

MERC Response:

MERC continues to experience an increased level of investment particularly in distribution mains, services, and station accounts resulting in increased plant additions as a result of regular system improvements. Additionally, MERC will experience increased investment as a result of the approval of the Rochester Natural Gas Extension Project under Dockets G-011/M-15-895 and G-011/M-16-315. Depreciation studies rely on historical activity to develop depreciation parameters. Forecasted activity does not modify historical results but rather assists in the application of judgement when selecting final depreciation parameters.

To be completed by responder

Response Date: October 9, 2017
Response by: Gary Simons
Email Address: GWSimons@integrysgroup.com
Phone Number: 651-322-8925

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G007/D-17-442	☐Nonpublic ☒Public	
Requested From:	Tina E. Wuyts, MERC	Date of Request:	9/29/2017
Type of Inquiry:	Financial	Response Due:	10/9/2017

Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

Request Number: **2**
Topic: Reserve ratios

Request:

Please provide a history of the utility's reserve ratios in a table that identifies the Year end Plant Balance, Reserve Balances and Reserve Ratios for the years 2012, 2013, 2014, 2015 and 2016.

MERC Response:

The reserve ratios for the years 2012 through 2016 are depicted below.

Year	Depreciable Plant	Reserve Balance	Reserve Ratio
2016	457.0	181.9	39.80%
2015	432.8	179.9	41.57%
2014	387.4	163.9	42.31%
2013	364.5	157.7	43.26%
2012	348.1	154.4	44.36%

To be completed by responder

Response Date: October 9, 2017
Response by: Tina Wuyts
Email Address: TEWuyts@integrysgroup.com
Phone Number: 920-433-4951

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G007/D-17-442	☐Nonpublic ☒Public	
Requested From:	Tina E. Wuyts, MERC	Date of Request:	9/29/2017
Type of Inquiry:	Financial	Response Due:	10/9/2017

Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

Request Number: **3**
Topic: Plant Activity for 2015
Reference(s): 2017 Five Year review of Depreciation, Exhibit 3

Request:

A. Please provide an explanation for the Transfers & Adjustments identified on Exhibit 3 for 2015.

B. Please fully explain whether Transfers & Adjustments referenced above, will significantly affect the average service lives, net salvage rates and annual accrual proposed for 2017.

MERC Response:

A. The net Transfers and Adjustments amount of $17,689,774 reflects the assets recorded at cost from MERC's acquisition of Interstate Power and Light's ("IPL") Minnesota natural gas distribution assets. As outlined in MERC's Petition, subsequent to its last depreciation study, MERC received Commission approval to purchase IPL's natural gas distribution property in Docket No. G001,011/PA-14-107. The plant assets were acquired by MERC in 2015 and have been incorporated into the results of this depreciation study.

B. Based on the age of the assets acquired from IPL and the level of accumulated depreciation as a percentage of plant in service, the acquisition had little impact to the life and salvage characteristics or annual accrual on an account basis.

To be completed by responder

Response Date: October 9, 2017
Response by: John Spanos – Gannett Fleming Valuation and Rate Consultants, LLC (contact information via MERC – Tina Wuyts)
Email Address: TEWuyts@integrysgroup.com
Phone Number: 920-433-4951

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G007/D-17-442	☐Nonpublic ☒Public	
Requested From:	Tina E. Wuyts, MERC	Date of Request:	9/29/2017
Type of Inquiry:	Financial	Response Due:	10/9/2017

Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

Request Number: **4**
Topic: Plant Activity for 2016
Reference(s): 2017 Five Year review of Depreciation, Exhibit 3

Request:

A. Please provide an explanation for the Transfers & Adjustments identified on Exhibit 3 for 2016.

B. Please fully explain whether Transfers & Adjustments referenced above, will significantly affect the average service lives, net salvage rates and annual accrual proposed for 2017.

MERC Response:

A. The net Transfers and Adjustments amount of $11,296,092 reflects the transfer of MERC's share of the Improved Customer Experience (ICE) software from the service company to MERC.

B. Capitalized software costs are amortized on a straight-line basis following the Company's Software Capitalization Policy. In addition, a 15-year life for the core ICE platform and a 3-year life for non-core ICE auxiliary software products that support the core platform was agreed upon between MERC and the Department and approved in Docket No. G011/GR-15-736.

To be completed by responder

Response Date: October 9, 2017
Response by: Tina Wuyts
Email Address: TEWuyts@integrysgroup.com
Phone Number: 920-433-4951

Minnesota Department of Commerce
Division of Energy Resources
Information Request

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Requested From:	Tina E. Wuyts, MERC	Date of Request:	9/29/2017
Type of Inquiry:	Financial	Response Due:	10/9/2017

Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

Request Number: **5**
Topic: Analysis of Depreciation Reserve for 2015
Reference(s): 2017 Five Year Review of Depreciation, Exhibit 4

Request:

A. Please provide an explanation for the Transfers & Adjustments identified on Exhibit 4 for 2015.

B. Please fully explain whether Transfers & Adjustments referenced above, will significantly affect the average service lives, net salvage rates and annual accrual proposed for 2017.

MERC Response:

A. The net Transfers and Adjustments amount of $8,830,505 reflects the accumulation depreciation reserve of the assets acquired from Interstate Power and Light ("IPL"). As outlined in MERC's Petition, subsequent to its last depreciation study, MERC received Commission approval to purchase IPL's natural gas distribution property in Docket No. G001,011/PA-14-107. The plant assets were acquired by MERC in 2015 and have been incorporated into the results of this depreciation study.

B. Based on the age of the assets acquired from IPL and the level of accumulated depreciation as a percentage of plant in service, the acquisition had little impact to the life and salvage characteristics or annual accrual on an account basis.

To be completed by responder

Response Date: October 9, 2017
Response by: John Spanos – Gannett Fleming Valuation and Rate Consultants, LLC (contact information via MERC – Tina Wuyts)
Email Address: TEWuyts@integrysgroup.com
Phone Number: 920-433-4951

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Division of Energy Resources
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Type of Inquiry:	Financial	Response Due:	10/9/2017

Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

Request Number: **6**
Topic: Analysis of Depreciation Reserve for 2016
Reference(s): 2017 Five Year Review of Depreciation, Exhibit 4

Request:

A. Please provide an explanation for the Transfers & Adjustments identified on Exhibit 4 for 2016.

B. Please fully explain whether Transfers & Adjustments referenced above, will significantly affect the average service lives, net salvage rates and annual accrual proposed for 2017.

MERC Response:

A. The net Transfers and Adjustments amount of $967,295 is comprised of $977,195 for MERC's share of the transfer of the Improved Customer Experience (ICE) software from the service company and ($9,900) representing a gain on the sale of land.

B. Capitalized software costs are amortized on a straight-line basis following the Company's Software Capitalization Policy. In addition, a 15-year life for the core ICE platform and a 3-year life for non-core ICE auxiliary software products that support the core platform was agreed upon between MERC and the Department and approved in Docket No. G011/GR-15-736. The gain on the sale of land has no impact on depreciation.

To be completed by responder

Response Date: October 9, 2017
Response by: Tina Wuyts
Email Address: TEWuyts@integrysgroup.com
Phone Number: 920-433-4951

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Division of Energy Resources
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Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

Request Number: **7**
Topic: Minnesota Office of Pipeline Safety (MNOPS) Legacy Pipeline Replacement Program

Request:

A. Please fully explain MERC's plans for MNOPS Legacy Pipeline Replacement Program by year including but not limited to the number of miles or valves to replace and estimated costs for each of the following replacements:

   a) steel services;
   b) copper services;
   c) steel mains;
   d) copper risers;
   e) cast iron mains;
   f) emergency valves;
   g) transmission pipelines; and
   h) all other legacy replacements not included above.

B. Please fully explain whether MERC's plans will significantly affect the average service lives or net salvage rates proposed for 2017.

MERC Response:

A. MERC's operations and engineering staff inquired and determined that MNOPS does not have a formal requirement of program at this time. This was discussed with the Commission by MNOPS to prepare it for additional costs that utilities would need to be able to recover based on expected changes to regulations in the future.

To be completed by responder

Response Date: October 9, 2017
Response by: Gary Simons
Email Address: gwsimons@integrysgroup.com
Phone Number: 651-322-8925

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Email Address(es):	dale.lusti@state.mn.us
Phone Number(s):	651-539-1829

However, MERC has been working on a legacy pipe replacement program to eliminate the pipe material with the highest risk for leaks, reaching the end of its useful life, or which is no longer able to be repaired due to obsolescence. MERC completed it bare steel program in 2015. This program targeted known bare steel pipe. As MERC finds any additional bare steel, the replacement projects are added to the next year's capital replacement project. In addition, as the existence of other obsolete materials becomes known, MERC adds the replacement of these materials to its capital plan for the upcoming year.

B. MERC's bare steel replacement program as well as replacement of other materials is not expected to affect the average service life, as these ongoing replacements do not represent a significant portion of MERCs total infrastructure.

To be completed by responder

Response Date:	October 9, 2017
Response by:	Gary Simons
Email Address:	gwsimons@integrysgroup.com
Phone Number:	651-322-8925

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Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

Request Number: **8**
Topic: Change in Depreciation Rates

Request:

Please identify the most significant reason(s) for the change in depreciation rates from the currently approved to the proposed rates for the following accounts:

- Account 367.10 Mains;
- Account 369.30 Measuring & Regulating Station Equipment;
- Account 375.00 Structures & Improvements;
- Account 376.00 Mains;
- Account 378.00 Measuring & Regulating Station Equipment;
- Account 379.00 Measuring & Regulating Station Equipment – City Gate;
- Account 380.00 Services;
- Account 381.00 Meters;
- Account 381.20 Meters – AMR;
- Account 383.00 House Regulators; and
- Account 385.00 Measuring & Regulating Station Equipment – Industrial.

MERC Response:

Depreciation rates are affected by many factors. These factors include the depreciation methods and procedures; plant activity such as additions and retirements; surviving plant balances as of the test year; the plant to reserve ratio; and the life and salvage parameters. The depreciation method and procedure are the same for the current and proposed depreciation rates. The attached schedule sets forth a comparison of the currently approved rates vs. proposed

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To be completed by responder

Response Date: October 9, 2017
Response by: John Spanos – Gannett Fleming Valuation and Rate Consultants, LLC (contact information via MERC – Tina Wuyts)
Email Address: TEWuyts@integrysgroup.com
Phone Number: 920-433-4951

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G007/D-17-442	☐Nonpublic ☒Public	
Requested From:	Tina E. Wuyts, MERC	Date of Request:	9/29/2017
Type of Inquiry:	Financial	Response Due:	10/9/2017

Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

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depreciation rates for the above accounts. Additionally, Table 4 in Exhibit 1 of MERC's depreciation study filing provides a comparison of currently approved vs. proposed survivor curves and net salvage percent.

The specific causes of the changed rates are as follows:

- Account 367.10 Mains
  The decrease in annual accrual rate is primarily due to the increased average service life and less negative net salvage.

- Account 369.30 Measuring & Regulating Station Equipment;
  The increase in the annual accrual rate is due to a shorter life estimate, a more negative net salvage estimate and a significantly lower reserve to plant ratio.

- Account 375.00 Structures & Improvements
  The increase in annual accrual rate is due to a combination of a shorter life estimate, more negative net salvage estimate and shorter resulting remaining life to recover a higher percentage of plant.

- Account 376.00 Mains
  The decrease in annual accrual rate is due to a less negative net salvage estimate and a higher reserve to plant ratio as of December 31, 2016.

- Account 378.00 Measuring & Regulating Station Equipment
  The increase in annual accrual rate is due to a shorter life estimate, a more negative net salvage estimate and a lower reserve to plant ratio.

- Account 379.00 Measuring & Regulating Station Equipment – City Gate

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To be completed by responder

Response Date: October 9, 2017
Response by: John Spanos – Gannett Fleming Valuation and Rate Consultants, LLC (contact information via MERC – Tina Wuyts)
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Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G007/D-17-442	☐Nonpublic ☒Public	
Requested From:	Tina E. Wuyts, MERC	Date of Request:	9/29/2017
Type of Inquiry:	Financial	Response Due:	10/9/2017

Requested by: Dale V. Lusti
Email Address(es): dale.lusti@state.mn.us
Phone Number(s): 651-539-1829

The increase in annual accrual rate is primarily due to a more negative net salvage estimate and resulting lower reserve to plant ratio as of December 31, 2016.

- Account 380.00 Services
  The decrease in annual accrual rate is primarily due to a longer life estimate.

- Account 381.00 Meters
  The decrease in annual accrual rate is primarily due to a longer remaining life as of December 31, 2016. The remaining life is longer as a result of the age of surviving assets and the change in type curve from an S2 to S1.

- Account 381.20 Meters – AMR
  The decrease in annual accrual rate is the result of the use of a survivor curve.

- Account 383.00 House Regulators
  The decrease in annual accrual rate is due to a longer life estimate and a higher reserve to plant ratio.

- Account 385.00 Measuring & Regulating Station Equipment – Industrial
  The decrease in annual accrual rate is primarily due to a longer life estimate.

To be completed by responder

Response Date: October 9, 2017
Response by: John Spanos – Gannett Fleming Valuation and Rate Consultants, LLC (contact information via MERC – Tina Wuyts)
Email Address: TEWuyts@integrysgroup.com
Phone Number: 920-433-4951

DEPRECIABLE GAS PLANT

Account Number	Description	Currently Approved ASL	Proposed ASL
TRANSMISSION PLANT			
367.10	Mains	50.00	65.00
369.30	M & R Station Equipment	45.00	30.00
DISTRIBUTION PLANT			
374.10	Rights of Way	25.00	25.00
375.00	Structures & Improvements	38.00	35.00
376.00	Mains	65.00	65.00
378.00	M & R Station Equipment	44.00	35.00
379.00	M & R Station Equipment – City Gate	40.00	35.00
380.00	Services	50.00	56.00
381.00	Meters & Installations	38.00	38.00
381.20	Meters – AMR	15.00	15.00
383.00	House Regulators	44.00	44.00
385.00	M & R Station Equipment – Industrial	36.00	36.00
GENERAL PLANT			
390.00	Structures & Improvements		
	Buildings Major	55.00	55.00
	Buildings Minor	42.00	45.00

392.10	Transportation Equipment	8.00	8.00
392.20	Trailers	15.00	16.00
396.00	Power Operated Equipment	14.00	18.00

AMORTIZABLE PLANT

391.10	Office Furniture & Equipment	5.00	5.00
391.20	Computer Equipment	20.00	20.00
393.00	Stores Equipment	5.00	5.00
394.00	Tools, Shop & Garage Equipment	5.00	5.00
395.00	Laboratory Equipment	5.00	5.00
397.10	Communication Equipment	5.00	5.00
398.00	Miscellaneous Equipment	5.00	5.00

DEPRECIABLE GAS PLANT

Account Number	Description	Currently Approved Salvage	Proposed Salvage
TRANSMISSION PLANT			
367.10	Mains	-45%	-30%
369.30	M & R Station Equipment	-5%	-30%
DISTRIBUTION PLANT			
374.10	Rights of Way	0%	0%
375.00	Structures & Improvements	-5%	-10%
376.00	Mains	-45%	-30%
378.00	M & R Station Equipment	-10%	-15%
379.00	M & R Station Equipment – City Gate	-15%	-40%
380.00	Services	-60%	-55%
381.00	Meters & Installations	-1%	-1%
381.20	Meters – AMR	-1%	0%
383.00	House Regulators	-5%	-5%
385.00	M & R Station Equipment – Industrial	-5%	-10%
GENERAL PLANT			
390.00	Structures & Improvements		
	Buildings Major	-5%	-10%
	Buildings Minor	-5%	-10%
392.10	Transportation Equipment	25%	20%
392.20	Trailers	30%	15%
396.00	Power Operated Equipment	10%	10%

MINNESOTA ENERGY RESOURCES CORPORATION

TABLE 3: COMPARISON OF ACCRUALS APPLYING CURRENTLY APPROVED AND PROPOSED DEPRECIATION RATES
AS OF DECEMBER 31, 2016

	ACCOUNT	TOTAL PLANT BALANCE 12/31/16	CURRENTLY APPROVED DEPRECIATION (a,b) RATE	CURRENTLY APPROVED DEPRECIATION (a,b) AMOUNT	PROPOSED DEPRECIATION (b) RATE	PROPOSED DEPRECIATION (b) AMOUNT	ACCRUAL INCREASE (DECREASE)
	(1)	(2)	(3)	(4)=(3)*(2)	(5)	(6)=(5)*(2)	(7)=(6)-(4)
TRANSMISSION PLANT							
367.10	MAINS	9,574,350.90	2.88	275,741	1.79	171,007	(104,734)
369.30	MEASURING AND REGULATING STATION EQUIPMENT	829,003.14	3.28	27,191	8.81	73,039	45,848
	TOTAL TRANSMISSION PLANT	**10,403,354.04**	**2.91**	**302,933**	**2.35**	**244,046**	**(58,887)**
DISTRIBUTION PLANT							
374.10	LAND AND LAND RIGHTS	596,817.87	4.08	24,350	4.08	24,376	26
375.00	STRUCTURES AND IMPROVEMENTS	145,075.92	2.62	3,801	6.26	9,087	5,286
376.00	MAINS	196,545,659.51	2.04	4,009,531	1.71	3,367,889	(641,642)
378.00	MEASURING AND REGULATING STATION EQUIPMENT	11,925,878.63	2.75	327,962	4.03	480,673	152,711
379.00	MEASURING AND REGULATING STATION EQUIPMENT - CITY GATE	9,720,082.38	3.04	295,491	4.46	433,920	138,429
380.00	SERVICES	143,624,197.45	2.87	4,122,014	2.32	3,338,282	(783,732)
381.00	METERS	46,436,065.86	2.78	1,290,923	2.53	1,175,411	(115,512)
381.20	METERS - AMR	339,538.31	7.34	24,922	6.51	22,113	(2,809)
383.00	HOUSE REGULATORS	19,506,251.54	1.69	329,656	1.50	293,357	(36,299)
385.00	MEASURING AND REGULATING STATION EQUIPMENT - INDUSTRIAL	1,984,530.96	3.08	61,124	2.64	52,347	(8,777)
	TOTAL DISTRIBUTION PLANT	**430,824,098.43**	**2.43**	**10,489,773**	**2.13**	**9,197,455**	**(1,292,318)**
GENERAL PLANT							
390.00	STRUCTURES AND IMPROVEMENTS						
	BUILDINGS - MAJOR	3,224,389.42	1.91	61,586	2.05	66,002	4,416
	BUILDINGS - MINOR	9,324,614.82	2.57	239,643	2.49	231,815	(7,828)
	TOTAL STRUCTURES AND IMPROVEMENTS	12,549,004.24		301,228		297,817	(3,411)
392.10	TRANSPORTATION EQUIPMENT	5,747,626.92	10.03	576,487	12.07	693,488	117,001
392.20	TRANSPORTATION EQUIPMENT - TRAILERS	92,528.20	0.85	786	1.97	1,822	1,036
396.00	POWER OPERATED EQUIPMENT	307,375.12	4.75	14,600	3.20	9,843	(4,757)
	TOTAL GENERAL PLANT	**18,696,534.48**	**4.78**	**893,102**	**5.36**	**1,002,970**	**109,868**

MINNESOTA ENERGY RESOURCES CORPORATION

TABLE 3: COMPARISON OF ACCRUALS APPLYING CURRENTLY APPROVED AND PROPOSED DEPRECIATION RATES
AS OF DECEMBER 31, 2016

	ACCOUNT	TOTAL PLANT BALANCE 12/31/16	CURRENTLY APPROVED DEPRECIATION (a,b) RATE	CURRENTLY APPROVED DEPRECIATION (a,b) AMOUNT	PROPOSED DEPRECIATION (b) RATE	PROPOSED DEPRECIATION (b) AMOUNT	ACCRUAL INCREASE (DECREASE)
	(1)	(2)	(3)	(4)=(3)*(2)	(5)	(6)=(5)*(2)	(7)=(6)-(4)
AMORTIZED PLANT							
391.10	OFFICE FURNITURE AND EQUIPMENT	852,461.00	5.00	42,623	5.00	42,623	0
391.20	OFFICE FURNITURE AND EQUIPMENT - COMPUTER EQUIPMENT	412,350.00	20.00	82,470	20.00	82,470	0
393.00	STORES EQUIPMENT	99,103.00	5.00	4,955	5.00	4,955	0
394.00	TOOLS, SHOP AND GARAGE EQUIPMENT	2,520,304.00	5.00	126,015	5.00	126,015	0
395.00	LABORATORY EQUIPMENT	955,079.00	5.00	47,754	5.00	47,754	0
397.00	COMMUNICATION EQUIPMENT	1,506,143.00	8.33	125,462	8.33	125,462	0
398.00	MISCELLANEOUS EQUIPMENT	26,388.00	5.00	1,319	5.00	1,319	0
	TOTAL AMORTIZED PLANT	6,371,828.00		430,598		430,598	0
INTANGIBLE PLANT							
302.00	FRANCHISES AND CONSENTS	134,913.00 (c)					
302.10	FARM TAPS	3,811,838.00 (c)					
303.00	MISCELLANEOUS INTANGIBLE PLANT	11,463,875.00 (c)					
	TOTAL INTANGIBLE PLANT	15,410,626.00					
LEASEHOLD IMPROVEMENTS							
390.10	STRUCTURES AND IMPROVEMENTS - LEASED	162,279.00 (c)					
	TOTAL LEASEHOLD IMPROVEMENTS	162,279.00					
	TOTAL DEPRECIABLE PLANT	481,868,719.95		12,116,406		10,875,069	(1,241,337)
NONDEPRECIABLE PLANT							
365.30	LAND	8,600.00					
374.00	LAND	85,715.00					
374.20	LAND AND LAND RIGHTS	86,567.00					
389.00	LAND AND LAND RIGHTS	1,252,260.00					
	TOTAL NONDEPRECIABLE PLANT	1,433,142.00					
	TOTAL GAS PLANT	483,301,861.95		12,116,406		10,875,069	(1,241,337)

(a) Depreciation rates approved in the annual remaining life update in Docket No. G-011/D-15-534.
(b) Amounts may be off due to rounding of depreciation rates.
(c) Assets are individually depreciated.

MINNESOTA ENERGY RESOURCES CORPORATION
Reserve to Plant Ratio Analysis

	2015			2016		
Account	Plant 1/ (a)	Reserve 2/ (b)	Reserve Ratio 3/ (c)	Plant 1/ (d)	Reserve 2/ (e)	Reserve Ratio 4/ (f)
376	$ 182,720,897	$ 72,465,406	39.66%	$ 196,545,660	$ 75,236,912	38.28%
378	$ 11,428,328	$ 1,646,220	14.40%	$ 11,925,879	$ 1,578,732	13.24%
379	$ 7,728,338	$ 1,013,408	13.11%	$ 9,720,082	$ 1,184,887	12.19%
380	$ 135,597,726	$ 69,229,817	51.06%	$ 143,624,197	$ 71,723,059	49.94%
381	$ 43,315,459	$ 14,220,699	32.83%	$ 43,470,551	$ 11,586,421	26.65%

1/ Petition, Part IX, Exhibit 3.
2/ Petition, Part IX, Exhibit 4.
3/ Columns (b) / (a).
4/ Columns (e) / (d).

MINNESOTA ENERGY RESOURCES CORPORATION
Reserve Analysis
For the Years 2012 through 2016
Per MERC Exhibits 3 and 4 to Part IX of the Petition

	Plant 1/ (a)	Reserve 2/ (b)	Reserve Ratio 3/ (c)
2016			
Total	480,336,347	189,440,352	
Less:			
Amortized GP	6,371,828	2,250,198	
Intangible Plant	15,410,626	5,112,408	
Acct 389 Land	1,252,260	-	
Acct 390.1 Leased	162,279	145,756	
	457,139,354	181,931,990	39.80%
2015			
Total	445,064,270	186,672,020	
Less:			
Amortized GP	6,669,350	2,683,983.00	
Intangible Plant	4,114,534	3,977,729.00	
Acct 389 Land	1,118,700	-	
Acct 390.1 Leased	158,024	107,296.00	
	433,003,662	179,903,012	41.55%
2014			
Total	398,296,241	170,166,844	
Less:			
Amortized GP	5,310,867	2,300,226.00	
Intangible Plant	4,144,534	3,904,755.00	
Acct 389 Land	1,118,700	-	
Acct 390.1 Leased	126,903	15,266.00	
	387,595,237	163,946,597	42.30%
2013			
Total	374,536,256	163,591,356	
Less:			
Amortized GP	4,918,313	2,091,341.00	
Intangible Plant	3,946,751	3,844,935.00	
Acct 389 Land	1,022,213	-	
Acct 390.1 Leased	526,239	-	
	364,122,740	157,655,080	43.30%
2012			
Total	358,050,437	160,106,331	
Less:			
Amortized GP	4,842,782	1,870,266	
Intangible Plant	3,946,751	3,820,804	
Acct 389 Land	957,135	-	
Acct 390.1 Leased	-	-	
	348,303,769	154,415,261	44.33%

1/ Petition, Part IX, Exhibit 3.
2/ Petition, Part IX, Exhibit 4.
3/ Columns (b) / (a).

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. G011/D-17-442

Dated this 7th day of December 2017

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Tina E	Wuyts	tewuyts@integrysgroup.com	Minnesota Energy Resources Corporation	PO Box 19001 700 N Adams St Green Bay, WI 54307-9001	Electronic Service	No	OFF_SL_17-442_D-17-442