Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: December 19**,** 2013 ....Agenda Item # ***6**

Company: Great Plains Natural Gas Company, a division of MDU Resources Group, Inc.

Docket No. G-004/D-12-565

In the Matter of a request by Great Plains Natural Gas Company for Approval of its 2012 Five-Year Depreciation Study

G-004/D-13-448

In the Matter of a Request by Great Plains Natural Gas Company for Approval of its 2013 Annual Depreciation Study

Issue(s): Should the Commission approve the proposed depreciation parameters and the resulting depreciation rates for both studies?

Should the rates be effective January 1, 2013 and should the 2013 study rates supersede the 2012 study rates?

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Relevant Documents

G-004/D-12-565
GPNG Filing ....June 1, 2012
DOC Comments...December 31, 2012 & January 2, 2013
GPNG Reply ....January 25, 2013
DOC Response .... March 12, 2013
GPNG Reply .... March 22, 2013
DOC Letter .... April 1, 2013
DOC Letter ....September 24, 2013

December 12, 2013

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GPNG Filing	May 31, 2013
DOC Comments	August 30, 2013
GPNG Reply	September 13, 2013
DOC Response	September 25 & October 7, 2013
GPNG Supplemental Reply	October 8, 2013

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

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December 12, 2013

Statement of the Issue

Should the Commission approve the proposed depreciation parameters and the resulting depreciation rates for both studies?

Should the rates be effective January 1, 2013 and should the 2013 study rates supersede the 2012 study rates?

Background and Party Positions

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On June 1, 2012, Great Plains Natural Gas Company (GPNG or the Company) filed its Five Year Depreciation Study. The Company stated that the application of the present rates to the Company's depreciable plant in service as of December 31, 2011 results in an annual depreciation expense of $1,465,633. In comparison, the application of the proposed depreciation rates to the depreciable plant in service at December 31, 2011 results in an annual depreciation expense of $1,261,248 which is a decrease of $204,386 from present rates.

On December 31, 2012 and January 2, 2013, the Department filed exhibits and comments. The Department stated that Utilities must file depreciation studies at least once every five years and must use straight-line depreciation unless a different method can be justified. When utilities use the average service life technique to depreciate group property accounts, the life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies. Because Great Plains uses the straight-line-broad-group procedure and vintage-group amortization together with the average-remaining-life technique to depreciate or amortize its plant investments, an annual study is required. After reviewing Great Plains 2012 Depreciation Study the Department concluded that the majority of the proposed remaining lives, salvage rates and depreciation rates are reasonable. However, the Department requested that Great Plains address in reply comments the issues discussed in its comments.

On January 24, 2013, GPNG filed reply comments addressing the Department's concerns. The Company also stated that it initially proposed that the depreciation rates be effective January 1, 2012. However, Great Plains has now closed its books for 2012 and is not able to implement, in 2013, depreciation rates effective January 1, 2012. Accordingly, Great Plains proposed that the depreciation rates be effective January 1, 2013, or such date that the Commission authorizes in 2013.

On March 12, 2013, The Department filed response comments recommending:

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

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

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

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

On March 22, 2013, the Company filed supplemental comments to address the Department's recommendations with respect to Account 391.30 and requested that the Commission approve the modified depreciation rates recommended by the Department, with the exception of Account 391.30.

On March 27, 2013, the Department filed a letter stating the sole remaining point of disagreement between the Department and Great Plains relates to an apparent error in Great Plains' calculation of the amortization rate for property account 391.30, Computer & Electronic Equipment. The Department stated that it has pursued this amortization rate issue in spite of the small dollar amount in question (less than $10,000) largely due to the frequency with which this particular error occurs in Great Plains' depreciation filings. This is the eleventh occurrence of this error since 2005. Based on Great Plains' description of its amortization calculations in its Supplemental Comments, it is likely that Great Plains' recommended amortization rate may be correct and that the Department's recommended rate may be incorrect. However, Great Plains' description of its amortization practices does not match the calculations shown in its initial filing, and Great Plains has failed to explain the differences. For these reasons, the Department maintains the recommendations made in its March 12, 2013 Response Comments.

On September 24, 2013, the Department submitted a letter stating that the outstanding issues in the instant Docket have been resolved and the Department now recommends that the Commission approve the depreciation parameters and rates proposed in Great Plains' initial filing (the 2012 Depreciation Study) with an effective date of January 1, 2013.

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On May 31, 2013, GPNG filed its annual depreciation update. The Company stated the application of the present rates to the Company's depreciable plant in service as of December 31, 2012 results in an annual depreciation expense of $1,575,885. In comparison, the application of the proposed depreciation rates to the depreciable plant in service at December 31, 2012 results in an annual depreciation expense of $1,424,231 which is a decrease of $151,655 from present rates. Great Plains requested that the depreciation rates in this annual study be certified effective as of January 1, 2013.

On August 30, 2013, the Department filed comments stating that after reviewing Great Plains' 2013 Depreciation Study it concluded that the majority of the proposed lives, salvage rates and depreciation rates are reasonable. However, the Department requested that Great Plains address in reply comments the issues raised regarding the remaining lives of the accounts 367.00

Transmission Mains, 367.60-.61 Farm & Side Taps, and 390.00-.01 General Structures & Improvements. The Department stated it will make a final recommendation to the Commission after it reviews the requested information.

On September 13, 2013, the Company filed reply comments addressing the issues raised by the Department. GPNG stated it identified errors in the study for accounts 367.00 and 390.00-.01. After correcting those errors the remaining service lives are consistent with the lives in the 2012 study. The Company clarified the calculation for 367.60-.61, stating it was correct as filed.

On September 25, 2013 (with a correction on October 7, 2013), the Department filed response comments noting that the combined effects of the two revisions is a reduction to Great Plains' estimated 2013 depreciation expense of approximately $40,000, or 2.85 percent.

After reviewing Great Plains' 2013 Depreciation Study, responses to Department Information Requests, and Reply Comments, the Department concluded that Great Plains' proposed depreciation parameters and the resulting depreciation rates, as revised, are reasonable. The Department notes that in addition to the revisions discussed above, Great Plains has also revised the proposed amortization rates for certain amortizable accounts since filing its Petition. The Department's recommendations below reflect all of the proposed revisions.

The Department recommended that the Commission:

1. Approve the depreciation parameters and depreciation rates proposed in Great Plains' 2013 Depreciation Study, with the following exceptions:
   a. for Account 367.00, approve a remaining life of 12.10 years and a depreciation rate of 0.15 percent;
   b. for Account 390.00-.01, approve a remaining life of 36.7 years and a depreciation rate of 1.87 percent;
   c. for Account 391.10, approve an average service life of 16 years and an amortization rate of 6.25 percent;
   d. for Account 394.10, approve an average service life of 20 years and an amortization rate of 5.00 percent;
   e. for Account 397, approve an average service life of 18 years and an amortization rate of 5.56 percent;

2. Require Great Plains to file its next depreciation study by June 1, 2014; and

3. Require Great Plains to file a five-year depreciation study by June 1, 2017.

On October 8, 2013, GPNG filed supplemental reply comments stating it agreed with the recommendation of approval of the depreciation rates as modified and requested that the Commission approve the depreciation rates filed by Great Plains, with the modification proposed by the Department.

Staff Analysis

Both the Company and the Department have reached agreement on the depreciation parameters and rates in both filings. Staff does not have any concerns regarding the agreed upon parameters and rates.

The only issue is the effective date. Because the 2012 filing was not resolved prior to the closing of the books for the year ended December 31, 2012, GPNG proposed an effective date for those rates of January 1, 2013. Great Plains also requested an effective date of January 1, 2013 for the rates in the 2013 filing. Staff believes that both filings should be approved but because only one set of parameters and rates can be used for 2013, Staff suggests that the Commission determine that the 2013 rates would supersede the 2012 rates and be the rates used by Great Plains for calendar year 2013.

Decision Alternatives

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1. Approve Great Plains' depreciation parameters and rates as proposed in Great Plains' initial filing (the 2012 Depreciation Study). **OR**

2. Require Great Plains to continue to use the depreciation parameters and rates approved in the 2011 filing.

   AND

3. Require Great Plains to submit an informational filing in its next depreciation filing, stating the reserve balances in Accounts 305, 311 and 320, after disposal of all property in those accounts is complete.

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4. Approve the depreciation parameters and depreciation rates proposed in Great Plains' 2013 Depreciation Study, with the following exceptions:
   a. for Account 367.00, approve a remaining life of 12.10 years and a depreciation rate of 0.15 percent;
   b. for Account 390.00-.01, approve a remaining life of 36.7 years and a depreciation rate of 1.87 percent;
   c. for Account 391.10, approve an average service life of 16 years and an amortization rate of 6.25 percent;
   d. for Account 394.10, approve an average service life of 20 years and an amortization rate of 5.00 percent;
   e. for Account 397, approve an average service life of 18 years and an amortization rate of 5.56 percent; **OR**

5. Require Great Plains to continue to use the depreciation parameters and rates approved in the 2011 filing.

   AND

6. Require Great Plains to file its next depreciation study by June 1, 2014; **AND**

7. Require Great Plains to file a five-year depreciation study by June 1, 2017. **AND**

8. Approve Great Plains' requested depreciation parameters and rates, as modified, with an effective date of January 1, 2013. The modified depreciation parameters and rates in the 13-448 docket will supersede the rates approved in the 12-565 docket.

Recommendation

Staff recommends 1, 3, 4, 6, 7 & 8