

Staff Briefing Papers

Meeting Date **September 18, 2025**

Agenda Item 2*

Company Minnesota Energy Resources Corp.

Docket No. G-011/D-25-249

**In the Matter of Minnesota Energy Resources Corp.'s Petition for approval of its
Annual Review of Depreciation Rates for 2025**

Issues Should Minnesota Energy Resource Corp.'s 2025 Annual Depreciation Petition be
approved?

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✓ **Relevant Documents**

Date

Minnesota Energy Resources Corp. – Initial Petition

June 2, 2025

Department of Commerce – Comments

July 1, 2025

Minnesota Energy Resources Corp. – Reply Comments

July 9, 2025

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

I. BACKGROUND

On June 2, 2025, Minnesota Energy Resources Corp. (MERC or the Company) submitted a Petition seeking approval of its 2025 annual depreciation rates pursuant to Minn. Stat. §216B.11 and Minn. Rules, Parts 7825.0500 to 7825.0900.

On July 1, 2025, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending approval of MERC's Petition.

On July 9, 2025, MERC filed reply comments agreeing with the Department's recommendations.

II. LEGAL STANDARDS

Under Minnesota Law, as governed by Minn. Stat. § 216B.11:

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.

Minn. Rules, pts. 7825.0500 – 7825.0900 require public utilities to seek Commission certification of depreciation rates and method, using straight line depreciation unless a different method is determined to be reasonable. Depreciation methods, practices and rates are evaluated every five years in a depreciation study provided by the utility and then reviewed annually, usually in a request for certification of the remaining lives of the utility's assets. The depreciation rates established in these proceedings are incorporated into the Company's revenue requirement and rates in a general rate proceeding. These stand-alone depreciation filings allow for a thorough examination of the Company's depreciation methods, practices, and rates independent of the other issues examined and analyzed within a rate case. This is one of the main reasons for having separate depreciation filings.

III. DISCUSSION

A. MERC's Petition

MERC requested Commission approval of its 2025 plant in service, depreciation reserve, depreciation accruals and rates. Table 1 illustrates these items in detail. MERC requested that the depreciation lives and rates be effective January 1, 2025.

Table 1: MERC's Depreciation Reserve, Plant in Service, Depreciation Accrual, and Accrual Rate - TOTAL¹

	Balance - December 31, 2024		2025 Depreciation Accrual			Depreciation Accrual Rate		
Function	Depreciation Reserve	Plant In Service	Present	Proposed	Difference	Present	Proposed	Difference
Transmission	\$4,009,346	\$8,426,876	\$178,507	\$178,012	(\$495)	2.12%	2.11%	-0.01%
Distribution	\$241,715,277	\$807,127,720	\$19,395,331	\$19,594,365	\$199,034	2.40%	2.43%	0.03%
General	\$9,272,699	\$34,702,913	\$1,517,252	\$1,502,225	(\$15,027)	4.37%	4.33%	-0.04%
Total Utility	\$254,997,322	\$850,257,510	\$21,091,090	\$21,274,602	\$183,512	2.48%	2.50%	0.02%

The current lives and depreciation rates were approved in Docket No's. G-011/D-22-261 and G-011/D-24-209.

1. Vintage Amortization Accounting

MERC noted that vintage amortization accounting for certain general plant accounts was proposed and approved in Docket No. G007,011/D-08-614. The Company continued to apply the lives and associated depreciation rates to the general plant accounts listed in Table 2 below.² As a result, these general plant accounts are excluded from the Annual Review of Depreciation Rates schedules.

Table 2: Excluded General Plant Accounts from Annual Depreciation Review

Account Number	Description	Amortizable Life (Years)
391	Office Furniture & Equipment	20
391	Computer Equipment	5
393	Stores Equipment	20
394	Tools, Shop & Garage Equipment	20
395	Laboratory Equipment	20
397	Communication Equipment	12
398	Miscellaneous Equipment	20

2. Remaining Life Report

According to MERC, the remaining life calculation used total future book accruals over the total annual accrual for vintage years not fully accrued. It incorporated additions and vintage retirements to calculate a remaining life for each account based on life and curve from the most recently approved depreciation study in Docket No. G-011/D-22-261.

¹ MERC Petition, Statement 2A.

² MERC Petition, June 1, 2025, at 4.

3. Minnesota Rule 7825.0700, Subpart 2B

Minnesota Rule 7825.0700, subpart 2B requires a list of major future additions or retirements to plant accounts that the utility believes may have a material effect on the current certification results. MERC has experienced an increased level of investment in distribution mains and services accounts, resulting in increased plant additions because of regular system improvements.

4. Compliance with January 8, 2020 Order (January Order)

The Commission's January 8, 2020 Order³ required MERC to individually depreciate the Rosemount, Rochester, Cloquet, and Albert Lea Service Centers in Account 390 Major Group, and the other buildings as members of the Minor buildings group. Table 3 illustrates MERC's plant in service, depreciation reserve, depreciation accruals and rates in detail for these facilities.

Table 3: MERC's Depreciation Reserve, Plant in Service, Depreciation Accrual, and Accrual Rate – Select Facilities⁴

Facility	Balance December 31, 2024		2025 Depreciation Accrual			Depreciation Accrual Rate		
	Depreciation Reserve	Plant In Service	Present	Proposed	Difference	Present	Proposed	Difference
Rosemount	\$932,773	\$7,105,517	\$153,479	\$153,576	\$97	2.16%	2.16%	0.00%
Rochester	\$940,575	\$4,184,539	\$99,592	\$99,984	\$392	2.38%	2.39%	0.01%
Cloquet	\$2,062,563	\$3,401,589	\$159,535	\$163,345	\$3,810	4.69%	4.80%	0.11%
Albert Lea	\$173,111	\$1,472,515	\$32,543	\$32,546	\$3	2.21%	2.21%	0.00%
Minor	\$1,327,661	\$9,440,793	\$266,230	\$260,639	(\$5,591)	2.82%	2.76%	-0.06%
TOTAL	\$5,436,682	\$25,604,952	\$711,379	\$710,090	(\$1,289)	2.48%	2.50%	0.02%

Additionally, Order Point 4 required MERC to identify new or existing buildings that exceed \$1,000,000 of total book value in future depreciation filings.

In 2019, MERC began depreciating the Rosemount, Rochester, Cloquet, and Albert Lea Service Centers. The four buildings are using parameters approved in Docket No. G-011/D-22-261, which utilize a life span method and an interim retirement curve.

Additionally, MERC received approval to use the North Central Region Gas Utility Construction Index to annually adjust the \$1,000,000 threshold. The January 2019 baseline index was 585 and the January 2025 index was 749, resulting in a \$280,342 increase of the threshold amount.

³ *In the Matter of the Petition of Minnesota Energy Resources Corporation for the Annual Review of Depreciation Rates for 2019*, Docket No. G-011/D-19-377, ORDER APPROVING DEPRECIATION LIVES AND RATES AND PROVIDING INSTRUCTION FOR FUTURE FILINGS.

⁴ MERC Petition, Statement 2A.

As of December 31, 2024, the Company reviewed the structures and improvements account and did not identify additional building locations that meet the requirements set by the Commission for its 2025 depreciation filing.

B. Department's Comments and Analysis

1. Compliance with Minnesota Rules

The Department indicated that MERC filed annual depreciation studies and employed a straight-line depreciation method, thus the Department determined that MERC reasonably complied with Minnesota Rules, parts 7825.0500-7825.0900.

2. Compliance with Prior Commission Orders

The Department concluded that MERC complied with the requirements of the Commission's January 8, 2020 Order in Docket No. G-011/D-19-377.

3. Reasonableness of Proposed Average Service Lives, Salvage Rates, Remaining Lives and Impact on Resulting Depreciation Rates

MERC's average service lives and salvage rates are unchanged from those approved in MERC's 2019 depreciation study. Therefore, the Department concluded that those depreciation parameters continue to be reasonable.

The Department observed that a plant account's remaining life is a function of its average service life, assumed survivor curve, and the age of property in the account, which is tracked by vintage. Thus, according to the Department, when an account's assumed average service life does not change, plant additions can lengthen the account's remaining life, as the new property will be expected to survive longer than older property in the account. Similarly, retirements of older property in an account can also lengthen the account's remaining life, as the weighted average age of the property in the account would decrease. Without a change in the age-makeup of property in an account, its remaining life would be expected to decrease by approximately one year from one depreciation study to the next if the account's average service life does not change.⁵

MERC proposed updated remaining lives that reflect the passage of time as well as plant activity (additions, retirements, transfers, etc.). The Department noted that MERC's proposed depreciation rates have changed slightly. Table 4 summarizes MERC's present and proposed accrual rates and depreciation expense.

⁵ Department Comments, July 1, 2025, at 2-3.

Table 4: MERC's 2025 Depreciation Study Results⁶

Function	Accrual Rate			2025 Annualized Accrual		
	Proposed	Present	Difference	Proposed	Present	Difference
Transmission	2.11%	2.12%	-0.01%	\$178,012	\$178,507	\$(495)
Distribution	2.43%	2.40%	0.03%	\$19,594,365	\$19,395,331	\$199,034
General	4.33%	4.37%	-0.04%	\$1,502,225	\$1,517,252	\$(15,027)
Total Utility	2.50%	2.48%	0.02%	\$21,274,602	\$21,091,090	\$183,512

The Department concluded that MERC's proposed remaining lives and depreciation accrual rates are reasonable.

4. Department's Conclusion and Recommendations

The Department recommended that the Commission:

- Approve the depreciation parameters and rates proposed in MERC's Petition, effective January 1, 2025.
- Require MERC to file its next annual depreciation study by June 1, 2026.
- Require MERC to file its next five-year depreciation study by June 1, 2027.

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

C. MERC's Reply Comments

MERC stated that it agreed with the Department's recommendations.

IV. STAFF COMMENTS

This docket contains no disputed items between the Department and MERC. Staff reviewed MERC's depreciation rates and concurs with the Department that the Commission approve MERC's Petition and accept the Department's recommendations.

⁶ MERC Petition, Attachment 1 and Statement 2A.

**V. DECISION OPTIONS**

1. Approve the depreciation parameters and rates proposed in MERC's Petition, effective January 1, 2025. [Department, MERC]
2. Require MERC to file its next annual depreciation study by June 1, 2026. [Department, MERC]
3. Require MERC to file its next five-year depreciation study by June 1, 2027. [Department, MERC]