Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: June 19, 2015 .... Agenda Item # **7****

Company: Interstate Power and Light Company

Docket No. E,G-001/D-15-284

In the Matter of Interstate Power and Light Company's Petition for Approval of its Depreciation Rates for 2015

Issues: Is IPL required to file a depreciation study regarding its former Minnesota natural gas assets? Should the Commission grant IPL's request for a five month extension to file its next five-year depreciation study related to its electric utility assets?

Staff: Ann Schwieger ....(651) 201-2238

Relevant Documents

IPL – Initial Filing .... March 25, 2015
Department of Commerce - Comments.. April 16, 2015
IPL – Reply Comments ....May 11, 2015
SMEC - Comments ....June 5, 2015
MERC –Comments ....June 5, 2015

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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June 10, 2015

Statement of the Issue

Is IPL required to file a depreciation study regarding its former Minnesota natural gas assets which were acquired by MERC? Should the Commission approve IPL's request for a five month extension to file its next five-year depreciation study related to its electric utility assets which are in the process of being acquired by SMEC?

Background

March 25, 2015: IPL filed a request for an extension to file its five-year depreciation study with the Minnesota Public Utilities Commission (PUC). The five-year study was due to be filed on July 1, 2015 and IPL requested an extension date to December 1, 2015.

April 15, 2015: the Minnesota Department of Commerce (Department) filed comments and objected to the Commission granting a five month extension. The Department recommended the Commission deny IPL's request or allow only a short, one-month extension. The Department stated the if the extension is granted and the sale of IPL's electric and gas assets is approved by the Commission the Company is assuming it will not have to file the study.

May 11, 2015: IPL submitted reply comments and disagreed with the Department's assertion that IPL is required to file a five-year study of its natural gas assets. IPL also stated that once IPL closes the transaction with SMEC it will no longer be required to file a five-year depreciation study for its electric distribution assets.

May 29, 2015: Commission Staff e-mailed a memo to interested other parties (i.e. MERC and SMEC) and asked for their opinion if they would find any value for IPL to complete a study.

June 5, 2015: Southern Minnesota Energy Cooperative (SMEC)[1] filed comments and stated it is unlikely that information of significant value would be obtained by requiring IPL to complete the five-year depreciation study and does not believe a study should be required.

June 5, 2015: Minnesota Energy Resources (MERC) filed comments and stated it would not utilize the results of a depreciation study conducted by IPL.

Party Positions

IPL
IPL filed a request for an extension to file its five-year depreciation study with the PUC. The five-year study was due to be filed on July 1, 2015 and IPL requested an extension date of December 1, 2015.

[1] The SMEC Member Cooperative are: Minnesota Valley Electric Cooperative, Steele-Waseca Cooperative Electric, People's Energy Cooperative, Tri-County Electric Cooperative, Freeborn-Mower Cooperative Services, BENCO Electric Cooperative, Brown County Rural Electrical Association, South Central Electric Association, Redwood Electric Cooperative, Federated Rural Electric Association, Nobles Cooperative Electric, Sioux Valley Energy.

Department

The Department filed comments and objected to the Commission granting a five month extension. The Department stated that if the extension is granted and the sale of IPL's electric and gas assets are approved by the Commission, the Company is assuming it will not have to file the study. The sale of IPL's electrical distribution assets to SMEC was approved by the Commission in an Order issued on June 8, 2015.[2] The sale of IPL's gas assets to MERC was approved by the Commission and an Order was issued on December 8, 2014.[3] The transaction with MERC was completed on April 30, 2015.

The Department stated that after the sale of IPL's electrical assets to SMEC, the Department and the Commission will still maintain some review authority over the class cost of service studies (CCOSS) developed by the individual SMEC Member Cooperatives for five years following the agreement's execution. The Department stated it would likely find the information contained in the study useful.

The Department noted that MERC plans to file a general rate case with the Commission in September of 2015. The Department stated that the year-end 2014 depreciation information regarding IPL's former Minnesota gas assets would be of value in its review of MERC's planned general rate case.

The Department recommended that the Commission deny IPL's request for a five month extension, or allow a short extension, such as one month.

IPL

IPL submitted reply comments and disagreed with the Department's assertion that IPL is required to file a five-year study of its natural gas assets. The transaction transferring IPL assets to MERC closed on April 30, 2015 and IPL is no longer a natural gas public utility in the state of Minnesota. The Company stated that the Commission recognized this in its November 20, 2015 Order[4] when it "approved IPL's proposed remaining lives, salvage rates, effective January 1, 2014" and said "IPL's next five-year depreciation study is due July 1, 2015, *unless and for the extent that pending sales of IPL's gas and/or electric operations have been completed.*" (emphasis added)

IPL stated that once IPL closes the transaction with SMEC it will no longer be required to file a five-year depreciation study for its electric distribution assets. The Company reasons it does not have to file a study for its natural gas assets and the same reasons apply to its electrical assets in Minnesota. Given the Commission's approval of the transaction with SMEC, the Company

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[2] ORDER APPROVING AGREEMENT SUBJECT TO CONDITIONS, In the Matter of a Request for the Approval of the Asset Purchase and Sale Agreement Between Interstate Power and Light Company and Southern Minnesota Energy Cooperative, Docket No. E-001, E-115, E-140, E-105, E-139, E-124, E-126, E-145, E-132, E-114, E-6521, E-142, E-135/PA-14-322 (June 8, 2015)

[3] ORDER APPROVING SALE SUBJECT TO CONDITIONS, In the Matter of a Request for the Approval of the Asset Purchase and Sale Agreement Between Interstate Power and Light Company and Minnesota Energy Resources Corporation, Docket No. G-001, G-011/PA-14-107 (December 8, 2014)

[4] ORDER, In the Matter of Interstate Power and Light Company's Petition for Approval of its 2014 Annual Depreciation Study, Docket No. E,G-001/D-14-559 (November 20, 2014)

contends it is not required to file the study.

IPL stated it disagrees with the Department's argument that the depreciation study of its electric assets would produce results that are valuable to the Commission. While the Department contends that IPL's five-year depreciation study of its electric assets would aid the Commission in reviewing SMEC's future CCOSS, IPL believes this is not the case. Based on the Commission's April 30, 2015 verbal decision, SMEC's compliance with the five-year rate plan will be subject to the Commission's review, ensuring SMEC conducts CCOSSs for years four and five of the rate plan. Assuming a third-quarter 2015 closing date of the transaction, SMEC's CCOSSs would not be performed until 2018. This would erode any informative value of the 2015 depreciation study the Department would like IPL to file.

<u>Interested Other Parties</u>
While Staff was researching the issue it was discovered that neither MERC, nor SMEC were included on the distribution list to be notified when documents are filed under this docket number. As the parties to the buy side of the IPL sale of assets Staff sought their input. A memo briefly outlining the issue was sent to the interested parties. (A copy is attached to the briefing papers.)

<u>SMEC</u>
SMEC responded that it is unlikely that any information of significant value would be obtained by requiring IPL to complete the study. SMEC stated that its retail rates for the first three years following the transaction are fixed at the current rates charged by IPL. While the rates are subject to generation charges and transmission service charges, neither IPL's current rates nor IPL's FERC generation rates would be affected by a five-year depreciation study.

SMEC stated that it is unlikely the depreciation study data would be useful for conducting a CCOSS based on 2014 data. The information would likely have only limited usefulness in terms of determining its 2018 costs.

SMEC recommended that the Commission should not require IPL to complete the study.

<u>MERC</u>
MERC stated it would not utilize the results of a depreciation study conducted by IPL. MERC noted that the IPL acquired plant assets only represent 4.5% of its total plant assets. MERC plans on incorporating the acquired assets and the depreciation reserves into rate base in its next rate case. The assets will also be included in the Company's revenue deficiency calculation.

Staff Analysis

Based on the information provided by the interested parties Staff recommends that the Commission not require the Company to file a five-year depreciation study.

Decision Alternatives

IPL's former Minnesota natural gas utility assets acquired by MERC

1.) Deny IPL's request and require IPL to file a five-year depreciation study no later than July 1, 2015. [DOC, preferred alternative]

2.) Deny IPL's request, grant IPL a one-month extension, and require IPL to file a five-year depreciation study no later than August 1, 2015. [DOC, second best alternative]

3.) Deny IPL's request, grant IPL a five-month extension, and require IPL to file a five-year depreciation study no later than December 1, 2015. [IPL, alternative]

4.) Do not require IPL to file a five-year depreciation study. [IPL, MERC]

IPL's former Minnesota electric utility assets acquired by SMEC

5.) Deny IPL's request and require IPL to file a five-year depreciation study no later than July 1, 2015. [DOC, preferred alternative]

6.) Deny IPL's request, grant IPL a one-month extension, and require IPL to file a five-year depreciation study no later than August 1, 2015. [DOC, second best alternative]

7.) Deny IPL's request, grant IPL a five-month extension, and require IPL to file a five-year depreciation study no later than December 1, 2015. [IPL, alternative]

8.) Do not require IPL to file a five-year depreciation study. [IPL, SMEC]

STATE OF MINNESOTA PUBLIC UTILITIES COMMISSION

MEMO

To: Richard Burud, SMEC Executive Committee, Vice Chair
Elaine J. Garry, SMEC Executive Committee, Secretary
Brian Krambeer, SMEC Executive Committee, Chair
Jim Krueger, SMEC Executive Committee, Treasurer
Michael Ahern, Dorsey & Whitney, Partner
Samantha Norris, Interstate Power & Light, Senior Attorney
John Kundert, Minnesota Department of Commerce, Financial Analyst

From: Ann Schwieger, Minnesota Public Utilities Commission, Financial Analyst

Date: May 29, 2015

Subject: Interstate Power & Light Company's five year depreciation study after the sale of IPL's Minnesota electric and gas utility assets.

Interstate Power and Light Company (IPL) filed a request for an extension of time to file its 2014 five year depreciation study in PUC Docket No. E,G001/D-15-284. While researching the issues, it was discovered that neither Minnesota Energy Resources (MERC), nor Southern Minnesota Energy Cooperative (SMEC) are included on the distribution list to be notified when documents are filed under this docket number. As the parties on the buy side of the IPL transaction, we would appreciate the Companies' opinion if they find would find it beneficial to their operations to require IPL to complete its five year depreciation study. The issue is briefly outlined below.

On March 25, 2015 IPL filed a request for an extension to file its five year depreciation study with the Minnesota Public Utilities Commission (PUC). The five year study was due to be filed on July 1, 2015 and IPL requested an extension date of December 1, 2015.

On April 15, 2015, the Minnesota Department of Commerce (Department) filed comments and objected to the Commission granting a five month extension. The Department stated the if the extension is granted and the sale of IPL's electric and gas assets is approved by the Commission, the Company is assuming it will not have to file the study. The sale of IPL's electrical distribution assets to SMEC was approved by the Commission on April 30, 2015. An official Order has not yet been issued by the Commission. The sale of IPL's gas assets to MERC was approved by the Commission and an Order was issued on December 8, 2014.

The Department stated that after the sale of IPL's electrical assets to SMEC, the Department and the Commission will still maintain some review authority over the class cost of service studies (CCOSS) developed by the individual SMEC Member Cooperatives for five years following the agreement's execution. The Department stated it would likely find the information contained in the study useful.

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The Department noted that MERC plans to file a general rate case with the Commission in September of 2015. The Department stated that the year-end 2014 depreciation information regarding IPL's former Minnesota gas assets would be of value in its review of MERC's planned general rate case. The Department recommended that the Commission deny IPL's request for a five month extension, or allow a short extension, such as one month.

On May 11, 2015, IPL submitted reply comments and disagreed with the Department's assertion that IPL is required to file a five year study of its natural gas assets. The transaction transferring IPL assets to MERC was closed on April 30, 2015 and IPL is no longer a natural gas public utility in the state of Minnesota. The Company stated the Commission recognized in its November 20, 2015 Order that IPL would not be required to file a five year depreciation study if the sale of IPL's natural gas assets was completed, "unless and for the extent that pending sales of IPL's gas and/or electric operations have been completed".

IPL stated that it agrees with the Department's interpretation that once IPL closes the transaction with SMEC it will no longer be required to file a five year depreciation study for its electric distribution assets. The Company reasons it does not have to file a study for its natural gas assets and the same reasons apply to its electrical assets in Minnesota. Given the Commission's verbal approval of the transaction, the Company contends it is not required to file the study.

IPL stated it disagrees with the Department's argument that the depreciation study of it electric assets would produce results that are valuable to the Commission. The Department contends that IPL's five year depreciation study of its electric assets would aid the Commission in reviewing SMEC's future CCOSSs. IPL stated this is not the case. Based on the Commission's April 30, 2015 verbal decision, SMEC's compliance with the five year rate plan will be subject to the Commission's review, ensuring SMEC conducts CCOSSs for years four and five of the rate plan. Assuming a third quarter closing date of the transaction, SMEC's CCOSSs would not be performed until 2018. This would erode any informative value of the 2015 depreciation study the Department would like IPL to file.

The item is scheduled to be **heard by the Commission at its Friday, June 19, 2015** agenda meeting. Due to the short turnaround time, we would need a response from the Companies' by **Friday, June 5, 2015**. A copy of IPL's previous five year depreciation study is available on the PUC's website under Docket No. 10-44.