COMMERCE DEPARTMENT

August 9, 2019

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/D-19-377

Dear Mr. Wolf:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

> The Petition of Minnesota Energy Resources Corporation for its Annual Review of Depreciation Rates for 2019.

The Application was filed on May 31, 2019 by:

> Tina E. Wuyts
> Senior Analyst
> WEC Energy Group – Business Services
> PO Box 19001
> Green Bay, WI 54307-9001

The Department concludes that many aspects of Minnesota Energy Resources Corporation's (MERC) Petition are reasonable, but requests that MERC provide additional information in reply comments. The Department will file response comments as soon as is practicable and is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/Craig Addonizio
Financial Analyst

Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/D-19-377

I. INTRODUCTION

On May 31, 2019, Minnesota Energy Resources Corporation (MERC or the Company) filed a petition (Petition) with the Minnesota Public Utilities Commission (Commission) requesting approval of its proposed depreciation rates effective January 1, 2019. MERC's Petition is the first update to its most recent comprehensive five-year depreciation study, filed in Docket No. G011/D-17-442 (2017 Depreciation Docket).[1] For all property accounts except Account 390, Structures and Improvements, the average service lives and salvage rates proposed in the Petition are unchanged from those approved in the 2017 Depreciation Docket, and remaining lives have been updated to reflect the passage of time and plant activity (i.e. additions, retirements, transfers, etc.). For Account 390, the Company proposed changes to its depreciation practices to comply with requirements imposed in MERC's most recent rate case, as discussed in greater detail below.

As indicated in Attachment 1 to MERC's Petition, the application of the proposed depreciation rates to plant and reserve balances as of December 31, 2018 would result in estimated annual depreciation expense of $12.7 million, or $0.3 million higher than depreciation expense would be under current depreciation rates. The proposed depreciation parameters would yield a total utility depreciation accrual rate of 2.34 percent, or six basis points higher than the total utility accrual rate yielded by the currently approved depreciation parameters (2.28 percent).

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) examined MERC's Petition for compliance with filing requirements and previous Commission Orders, as well as for the reasonableness of the proposed remaining lives, salvage rates, and depreciation rates.

[1] In the 2017 Depreciation Docket, the Commission approved MERC's request that it not be required to make a depreciation filing in 2018 because the 2017 Depreciation Docket was not concluded until mid-2018.

A. COMPLIANCE WITH FILING REQUIREMENTS AND PRIOR COMMISSION ORDERS

1. Compliance with Minnesota Rules

Minnesota Statutes Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900 require public utilities to seek Commission certification of their depreciation rates and methods. Utilities must use straight-line depreciation unless the utility can justify a different method. Additionally, utilities must review their depreciation rates annually to determine if they are generally appropriate and must file depreciation studies at least once every five years. Once certified by order, depreciation rates remain in effect until the next certification.

MERC employs a straight-line depreciation method and files annual depreciation studies with the Commission. Additionally, in 2017 and in 2018, MERC used the then-most recently approved depreciation rates to calculate depreciation expense, from Docket Nos. G011/D-16-490 and G011/D-17-442, respectively. The Department concludes that MERC's Petition complies with Minnesota Rules.

2. Compliance with Prior Commission Orders

The Commission's May 4, 2018 Order in the 2017 Depreciation Docket required MERC to file its next annual depreciation petition by June 1, 2019. MERC's Petition was filed on May 31, 2019, and therefore complied with this requirement.

Order Point 15 of the Commission's December 26, 2018 Order in MERC's most recent rate case, Docket No. G011/GR-17-563 (the 2017 Rate Case), stated:

> In either its next rate case or its next depreciation filing, whichever comes first, MERC shall propose a set of depreciation practices and adjustments for the separate depreciation of large assets, like office buildings or to provide explanation why no such modification from the Company's depreciation practices is warranted or appropriate.

In its Petition, MERC proposed to depreciate two large structures booked to Account 390, Structures and Improvements, as independent depreciable assets, while continuing to depreciate the remaining 20 structures booked to that account as a group. The Department discusses the merits of MERC's proposal below, but concludes that the Company's proposal reasonably complies with the requirement of the Commission's Order in Docket No. G011/GR-17-563 to propose a set of depreciation practices for the separate depreciation of large assets.

B. REASONABLENESS OF PROPOSED REMAINING LIVES, SALVAGE RATES, AND IMPACT ON RESULTING DEPRECIATION RATES

1. Proposed Lives and Salvage Rates for all Property Accounts Except Account 390, Structures and Improvements

For all property accounts other than Account 390, Structures and Improvements, the average service lives, survivor curves, and salvage rates MERC used in its Petition to develop its proposed depreciation rates were established in 2017 Depreciation Docket. The Department concludes that those depreciation parameters continue to be reasonable.

The Department notes generally 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, even 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. Barring 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. [2]

In its Petition, MERC proposed updated remaining lives that reflect the passage of time as well as plant activity (additions and retirements) in its accounts. The Department reviewed MERC's proposed remaining lives and concludes for all property accounts other than Account 390 that they are reasonable.

2. Proposed Lives and Salvage Rates for Account 390, Structures and Improvements

a) General Background

In late 2017 and early 2018, MERC relocated its headquarters from an existing office building in Rosemount, Minnesota, to a new office building also located in Rosemount.[3] The Company subsequently retired and demolished the old office building.[4] In the 2017 Rate Case, both the Department and the Office of the Attorney General (OAG) raised concerns that MERC's proposed accounting treatment of the old office building's retirement would not appropriately remove the undepreciated portion of the building's original cost from the Company's rate base, and would therefore result in ratepayers paying for the capital costs of both the new and old

[2] Due to the probabilistic nature of the remaining life calculation, the remaining life of an account that has had no additions, retirements, transfers, etc., would actually be expected to decline by slightly less than one year.
[3] 2017 Rate Case, Hearing Exhibit OAG-1, Lee Direct, pp. 16-17.
[4] 2017 Rate Case, Hearing Exhibit OAG-1, Lee Direct, pp. 16-17.

office buildings, even though the latter would not be used and useful for the full test year, let alone on a going-forward basis.

MERC depreciates the buildings recorded in Account 390 using a group depreciation procedure. Under group accounting, individual assets are not tracked and depreciated separately. Rather, property is separated into groups such that each "group contains homogeneous units of plant which are alike in character, used in the same manner throughout the utility's service territory, and operated under the same general conditions."[5] MERC currently assigns its buildings to one of two groups, either its "Major" group or its "Minor" group.[6] Each group is assigned an average service life (ASL) representing the expected age at which the property units in the group will be retired. A depreciation rate is calculated for the group using the ASL (as well as any applicable gross salvage estimate) such that, if applied to an individual property unit, the unit would be fully depreciated once its age equals the group's ASL.

However, the single ASL is estimated and assigned to the property group with the understanding that there will be dispersion in the actual ages reached by the property units in the group. Some units will retire before reaching the assigned ASL, some units will retire at an age equal to the assigned ASL, and others will retire at ages greater than the ASL. A property unit that retires prior to reaching the ASL will, in a notional sense, cause the utility to incur a loss because the unit will be under-depreciated and could be thought to have positive book value at the time of its retirement. A property unit that retires later than the ASL will, again in a notional sense, cause the utility to incur a gain because the unit will be over-depreciated and could be thought to have negative book value at the time of its retirement.

Group depreciation assumes that the impact of early retirements will be offset by the impact of late 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 depreciation relates to the entire group rather than to specific assets within the group, no gain

[5] Public Utility Depreciation Practices. (August, 1996). National Association of Regulatory Utility Commissioners. Page 19.
[6] While MERC technically applies a group depreciation methodology to its Major buildings group, that group contains only one building, the Rochester Service Center.

> 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 salve and cost of removal, is being fully provided for in the accumulated depreciation account.[7]

Group accounting is appropriate for property items like meters, because tracking each of the tens of thousands (or, in some cases, significantly more) units individually would be difficult and impractical. Relatedly, due to the large number of meters typically owned by even a small utility, each individual meter represents only a tiny fraction of the total plant balance booked to meters group, and therefore even an extraordinarily early or late retirement of a single meter will not have a material effect on the group as a whole.

In contrast, MERC's Account 390 includes only 22 property units (i.e. buildings) now that the old Rosemount office building has been retired and demolished.[8] Further, the four largest buildings in account 390 represent 75 percent of the account's gross plant balance.[9]

Table 1
Summary of Gross Plant Value of MERC's Largest Buildings

	Gross Plant	% of Total
Four Largest Buildings		
Rosemount Service Center	6,949,317	35.5%
Rochester Service Center (New)	3,241,517	16.6%
Cloquet Service Center	3,140,175	16.1%
Albert Lea Service Center	1,340,956	6.9%
Subtotal - Four Largest Buildings	14,671,965	75.0%
18 Buildings Smallest Buildings	4,880,970	25.0%
Total - 22 Buildings	19,552,935	100%

Source: Petition, Attachment 3, Table 1

[7] Public Utility Depreciation Practices. (August, 1996). National Association of Regulatory Utility Commissioners. Page 49.
[8] See Petition, Attachment 3, page 5.
[9] The fifth and sixth largest buildings represent 3.3 percent and 3.0 percent of the accounts gross plant balance, and no other building represents more than 2.4 percent of the total balance. See Department Attachment 1.

If any of these buildings retires significantly before it reaches its assumed average service life, and were therefore notionally under-depreciated, it could have a significant impact on the depreciation expense of the account as a whole. This was precisely the concern in MERC's 2017 Rate Case. At the end of 2017, as the Company was preparing to retire and demolish its old Rosemount office building, which was included in the Minor buildings group, the building had a gross plant balance of $1.7 million but an allocated accumulated depreciation balance of only $0.6 million.[10] Under the group accounting methodology/approach used by MERC for Account 390, the net plant balance of $1.1 million would remain in the Account's overall net plant balance even when the plant was no longer used or useful, and would result in higher depreciation expense being charged to ratepayers going forward.

In effect, though not in reality, $1.1 million of accumulated depreciation was reallocated from the other building in the account to the old Rosemount Office Building's, and now that $1.1 million must be expensed a second time to make up for it, and the resulting higher depreciation expense is reflected in MERC's rates.

As a result of the Department's and the OAG's concerns related to this issue, in the 2017 Rate Case, the Commission ordered MERC to review whether group depreciation is appropriate for its larger assets and either propose changes to depreciation practices or explain why changes are not necessary. MERC did so, and included in its Petition a proposal to make changes to its depreciation practices for Account 390, which the Department discusses in greater detail below.

b) Selection of Large Assets to Depreciate Separately

As noted above, MERC already effectively depreciates its Rochester Service Center on an individual basis as it is the only building included in MERC's Major buildings group.[11] In response to the Commission's December 26, 2018 Order in the 2017 Rate Case, described above, MERC proposed in its Petition a test to apply to newly constructed or acquired buildings to determine whether to include them in the group or depreciate them individually. Per MERC's proposal, if the gross plant value of a new building is more than one percent of the Company's total net plant at the end of the most recent calendar year, the Company will depreciate it individually by assigning it to its own group. Otherwise, the new building will be depreciated as part of the Minor buildings group.

[10] 2017 Rate Case, Hearing Exhibit DOC-14, Campbell Direct, pg 56.
[11] This accounting treatment was first approved in Docket No. G011/D-12-533.

MERC noted in its Petition that as of the end of 2018, the one-percent threshold was $3.5 million.[12] MERC stated that by using this test, "MERC will establish a materiality threshold for major buildings, and avoid the unnecessary administrative burden of individually depreciating many small, dispersed assets."[13]

MERC's new Rosemount Service Center, which has a gross plant value of $6.9 million, is above the threshold prescribed by MERC's proposed test, and thus MERC proposed to assign it to its own group and depreciate it on an individual basis. Per MERC's proposal, its remaining 20 buildings booked to Account 390 will continue to be depreciated in the Minor buildings group.

While the Department agrees with MERC's proposal to categorize the new Rosemount Service Center as a Major building and depreciate it on an individual basis, the Department has a few concerns with the other aspects of MERC's proposal. First, building additions are infrequent enough that evaluating them on a case-by-case basis will not be unduly burdensome, and therefore MERC's proposed rule to determine whether to depreciate new buildings individually or as part of the Minor buildings group is unnecessary. Additionally, gross plant value is only one of many characteristics of a building, and adherence to a rule that ignores all other potential differentiating characteristics may in the future result in the inappropriate inclusion of a building with unique life and operational characters in the Minor buildings group.

Second, as the Company pointed out in its Petition, its proposed test results in the Cloquet Service Center (Cloquet) being depreciated as part of the group, rather than on an individual basis. While Cloquet may be similar to the other buildings in the Minor buildings group, its gross plant value, $3.1 million as shown in Table 1 above, is 16.1 percent of Account 390's total gross plant balance, and an unexpected early retirement could have a significant impact on the account's depreciation expense. Further, for depreciation purposes, Cloquet is essentially equal in size to the Rochester Service Center, which the Company proposed to depreciate on an individual basis, and it is significantly larger than the old Rosemount Office Building (gross plant value $1.7 million), the retirement of which was problematic enough to prompt this review of MERC's accounting practices. Based on its size alone, the Department concludes that Cloquet should be depreciated individually.

In its Response to Department Information Request (IR) 6, the Company stated that it opposes moving Cloquet to a separate group in order to depreciate it individually.[14] MERC stated that its proposed test provide a reasonable, objective guideline for determining whether to include a building in the Minor buildings group, and the Cloquet does not meet the proposed standard. In its Petition, MERC stated that:

[12] See Petition, Attachment 3, pg. 6.
[13] See Petition, Attachment 3, pp. 6-7.
[14] See Department Attachment 2.

> Cloquet's initial investment was recorded in 1980 and an addition to the building was recorded in 1992. As a result, the remaining life attributes of the minor group appropriately represent the remaining life of this building. Additionally, keeping the Cloquet Service Center in the minor group is consistent with longstanding depreciation practices for this property. As a result, there is no need to separately depreciate this building.[15]

In its response to Department IR 6, the Company clarified its statement about the remaining life attributes of the Minor building group appropriately representing the remaining life of the building. MERC explained that it generally anticipates a life span of 50-60 years for a newly constructed building, and that although the Company's initial investment in the Cloquet Service occurred in 1980, it received a significant capital investment in 1992 and that investment and subsequent investments represent 75 percent of the building's gross plant value. Thus, MERC generally considers Cloquet's initial in-service date to be in the early 1990s, which means the buildings is currently approximately 30 years old, and a 30.7 year remaining life implies a life span of just over 60 years, which is consistent with MERC's general expectation for a new building.

The Department disagrees with MERC's reasons for not depreciating Cloquet on an individual basis. First, the Department does not agree that the fact that Cloquet has up until now been depreciated as part of the Minor buildings group justifies its inclusion in that group going forward. As discussed above, in the 2017 Rate Case, the Commission ordered MERC to review its depreciation practices for its large assets based on a concern raised by both the Department and the OAG that MERC's existing practices were not reasonable, and the Cloquet Service Center should only remain in the Minor group going forward if it is reasonable to leave it in that group.

Second, the Department disagrees with MERC's assessment of Cloquet's remaining life attributes. It does not matter if Cloquet's specific expected remaining life is roughly equal to the remaining life of the Minor building group as a whole. That is nothing more than a coincidence. It is reasonable and consistent with group depreciation to have a wide range of ages among the property units included in the group. For example, the ASL for MERC's meters (Account 381) is 39 years, and the calculated remaining life is 28 years, but that group reasonably contains property units added as far back as 1905 and as recently as 2018, which have remaining lives that are likely not close to the group's calculated remaining life.[16]

[15] Petition, Attachment 3, page 6.
[16] See Petition, Attachment 2 pages 12-13.

The same applies to Account 390. If MERC were to make additional, significant, life-extending investments in Cloquet, its remaining life would become much longer than the remaining life of the rest of the group, but that situation would obviously not be a reason to remove it from the group.

What matters is that 1) the assumed average service life for the group is appropriate for Cloquet, and 2) an unexpected early retirement of Cloquet wouldn't have a significant impact on the group's depreciation expense. While the former is likely true, the latter, given Cloquet's size relative to the rest of the buildings in Account 390, is not. Therefore, the Department recommends that the Commission require MERC categorize the Cloquet Service Center as a major building and depreciate it on an individual basis.

After Cloquet, which accounts for 16.1 percent of Account's 390 gross plant value, there is a significant drop off in the size of MERC's next largest building, which is the Albert Lea Service Center (Albert Lea). As shown in Table 1 above, Albert Lea has a gross plant value of $1.3 million and accounts for only 6.9 percent of Account 390's total gross plant value. After Albert Lea, MERC's next largest building accounts for only 3.3 percent of Account 390's gross plant value, and the remaining 17 buildings each account for 3.0 percent or less of the Account's total value.[17]

The Department notes that Albert Lea, at $1.3 million, is close in gross plant value to the old Rosemount Office Building, and thus should be depreciated on an individual basis rather than as part of the Minor buildings group. The gap in size between Albert Lea (6.9 percent of Account 390) and then next smallest building (3.3 percent) is a natural break in the data that provides a reasonable dividing line between buildings that are reasonable to depreciate individually and buildings that are reasonable to depreciate as a group. For the buildings that are 3.3 percent of Account 390 or smaller, an early retirement is unlikely to have a significant impact on the account's depreciation expense, and the Department agrees that administrative burden of estimating and reviewing depreciation parameters and rates for those buildings would be unreasonable given the unlikelihood that any will present a problem.

Thus, the Department recommends that the Commission require MERC to depreciate the Rosemount Service Center, Rochester Service Center, Cloquet Service Center, and the Albert Lea Service Center individually, and to depreciate the other 18 buildings in Account 390 as a single group.

[17] See Department Attachment 1.

c) Determination of Depreciation Parameters for Major Buildings

In order to depreciate the Rosemount, Rochester, Albert Lea and Cloquet Service Centers individually, lives, salvage rates, and beginning depreciation reserves must be determined for all three buildings.

The Department notes that in response to OAG IR 11, MERC conducted all of the analysis necessary to begin depreciating the Rosemount, Rochester, Cloquet, and Albert Lea Service Centers individually while depreciating the remaining 18 buildings as a group.[18] Table 2 below summarizes MERC's proposed lives for the four major buildings that will be depreciated individually.

Table 2
Summary of Proposed Lives for Selected Buildings

Building	Proposed Probable Retirement Year	Life Span (Years)	Remaining Life (Years)
Rosemount Service Center	2072	55	50.1
Rochester Service Center	2063	55	41.5
Cloquet Service Center	2035	55	16.0
Albert Lea Service Center	2072	55	50.1

In its response to Department IR 3, the Company explained that it selected the 55 year life span for the Major buildings based in part on its general experience with buildings, and that it is generally consistent with the lives of subsystems such as HVAC and lighting.[19] The proposed probable retirement year for Cloquet, 2035, reflects Cloquet's initial purchase year of 1980 and a proposed 55 year life span. MERC stated in its response to OAG IR 11 that the use of a life span coupled with a truncated survivor curve does not appropriately reflect significant, life-extending improvements made at Cloquet in 1992, and produces an unreasonably short remaining life.[20]

The Department recognizes that the investments at Cloquet likely extended its useful life, and requests that MERC explain in reply comments why it cannot simply propose a probable retirement year that reflects these investments. For example, if MERC were to propose a probable retirement year of 2043, it would effectively reflect an eight-year life extension attributable to the 1992 additions.

[18] See Department Attachment 3.
[19] See Department Attachment 4.
[20] See Department Attachment 3.

MERC proposed to use the same salvage rate approved in the 2017 Depreciation Docket for Account 390, negative 10 percent, for all buildings. MERC's analysis in that Docket represents the most recent salvage analysis for MERC's buildings, and therefore the Department concludes that MERC's proposal is reasonable.

To develop beginning depreciation reserves for the four major buildings and the Minor buildings group, MERC first developed theoretical reserve balances for each of the major buildings and the Minor buildings group. MERC then allocated Account 390's total actual depreciation reserve to the major buildings and the minor group using those theoretical reserve balances as weights. The Department concludes that this allocation method is a reasonable way to develop a beginning depreciation reserves for each building and group.

Based on its review the Department concludes that the process used in MERC's response to OAG IR 11 was generally reasonable. MERC also noted the following chain of revisions in its response to OAG IR 11: removal of Cloquet and Albert Lea from the Minor buildings group changed that group's survivor curve, which in turn changed the group's calculated remaining life and theoretical reserve, which in turn affected the allocation of Account 390's total depreciation reserve across the various buildings and minor group. The Department requests that MERC update the probable retirement year for Cloquet to reflect any life-extending investments made in 1992 or later, or explain why such an extension is not reasonable.

III. DEPARTMENT CONCLUSIONS

As described above, the Department concludes that MERC's proposed depreciation parameters and rates for all accounts other than account 390 are reasonable. As described above, the Department instead recommends that the Commission require MERC to depreciate the Rosemount, Rochester, Cloquet, and Albert Lea Service Centers individually and to depreciate the other 18 buildings in Account 390 as members of the Minor buildings group.

The Department requests that MERC respond to the Department's questions regarding the proposed probable retirement year for the Cloquet Service Center. The Department will provide a response as soon as practicable after MERC files its reply comments.

/ar

Summary of Structures Recorded In Account 390

Line No.	Building	Gross Plant Value	Percent of Total
1	Rosemount Service Center	6,949,317	35.5%
2	Rochester Service Center (New)	3,241,517	16.6%
3	Cloquet Service Center	3,140,175	16.1%
4	Albert Lea Service Center	1,340,956	6.9%
5	Fairmont Service Center	640,994	3.3%
6	Caledonia Work Center	591,870	3.0%
7	Bemidji Service Center	466,052	2.4%
8	Worthington Service Center (New)	415,768	2.1%
9	Grand Rapids Work Center	408,604	2.1%
10	Eveleth Work Center	369,467	1.9%
11	Chatfield Operations - Bldg	319,773	1.6%
12	Pine City Service Center	293,275	1.5%
13	International Falls Work Center	290,952	1.5%
14	Theif River Falls Work Center	230,972	1.2%
15	Warroad Work Center	229,919	1.2%
16	Wadena Work Center	200,023	1.0%
17	Bemidji Warehouse	122,184	0.6%
18	Detroit Lakes Work Center	111,600	0.6%
19	Crosby Work Center	84,948	0.4%
20	Roseau Work Center	61,247	0.3%
21	Silver Bay Work Center	29,948	0.2%
22	Staples Work Center	13,373	0.1%
Total		19,552,935	100.0%

Source: Petition, Attachment 3, page 6.

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/D-19-377	☐Nonpublic	☒Public
Requested From:	Minnesota Energy Resources Corp.	Date of Request:	June 17, 2019
Type of Inquiry:	Financial	Response Due:	June 27, 2019

Requested by:	Craig Addonizio
Email Address(es):	craig.addonizio@state.mn.us
Phone Number(s):	651-539-1818

Request Number: **6**
Topic: Cloquet Service Center
Reference(s): Petition, Attachment 3, pages 6-7

Request:

a. Please explain more specifically what the Company meant when it wrote "[a]s a result, the remaining life attributes of the minor group appropriately represent the remaining life of [the Cloquet Service Center]."

b. Does MERC have any concerns that if it records another large addition at any point in the future for the Cloquet Service Center that the remaining life attributes of the minor group will no longer appropriately represent the its remaining life?

c. Would MERC oppose moving the Cloquet Service Center to the Major Grouping and depreciating it individually?

MERC Response:

a. The Minor grouping's attributes produce a remaining life of 30.7 years. Cloquet itself reflects two major independent capital investments. While the Cloquet building's initial investment was in 1980, another significant investment occurred with a building addition in 1992. MERC's investment in Cloquet from the 1992 addition through 2018 represents more than 75% of its overall cost. Therefore, there is more weighting given to the 1992 addition and the remaining life associated with the Minor grouping is more appropriate.

b. No. As noted in the response to Information Request Number 3, MERC anticipates a life span of 50-60 years for a newly constructed building. While Cloquet's physical footprint reflects an

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To be completed by responder

Response Date:	June 27, 2019
Response by:	Gregory Cieslewicz
Email Address:	gregory.cieslewicz@wecenergygroup.com
Phone Number:	920-433-1087

Docket Number:	G011/D-19-377	☐Nonpublic	☒Public
Requested From:	Minnesota Energy Resources Corp.	Date of Request:	June 17, 2019
Type of Inquiry:	Financial	Response Due:	June 27, 2019

Requested by:	Craig Addonizio
Email Address(es):	craig.addonizio@state.mn.us
Phone Number(s):	651-539-1818

original building plus a subsequent building addition, it is difficult to anticipate a similar significant addition at this particular location in light of the conditions discussed in Information Request Number 3. The Minor grouping's shorter remaining life would continue to be appropriate for the facility as a whole, even though future improvements would normally be expected to last longer.

c. Yes, MERC opposes moving the Cloquet Service Center to the Major grouping to depreciate it individually. MERC has identified reasonable, objective guidelines to be used in order to establish consistency in the application of whether or not to depreciate a building separately, and Cloquet does not meet those standards. Further, as explained in part (b) above, Cloquet can and should be included in the Minor grouping based upon its age and shorter remaining life.

To be completed by responder

Response Date:	June 27, 2019
Response by:	Gregory Cieslewicz
Email Address:	gregory.cieslewicz@wecenergygroup.com
Phone Number:	920-433-1087

State Of Minnesota
Office Of The Attorney General
Utility Information Request

In the Matter of the Petition of Minnesota Energy Resources Corporation for its Annual Review of Depreciation Rates for 2019	**MPUC Docket No.**	G-011/D-19-377	

Requested from: MERC

By:	Shoua Lee	**Date of Request:**	July 11, 2019
Telephone:	(651) 757-1417	**Due Date:**	July 23, 2019

Reference: Account 390 Major - Calculated Remaining Life Depreciation Accrual spreadsheet

Using the same spreadsheet template for the major grouping, produce a separate spreadsheet for the Albert Lea Service Center and the Cloquet Service Center.

Explain how the Company assigns the total Account 390 book reserve to each of these two assets.

MERC Response:

As discussed in MERC's May 31, 2019, Filing, MERC has proposed to include new buildings in the major grouping only when they are newly acquired or constructed and will constitute at least one percent of the Company's total depreciable net plant based on the most recent year end at the time of the addition (as reflected in Statement 2A of Attachment 1). As of the end of 2018, this would equate to a major structure threshold of $3,505,959, or roughly one percent of $350,595,896 in total depreciable net plant, which is consistent with placing the new Rosemount Service Center in the major grouping. In this way, MERC will establish a materiality threshold for major buildings, and avoid the unnecessary administrative burden of individually depreciating many small, dispersed assets. Neither the Albert Lea nor the Cloquet Service Centers meet this threshold.

Although MERC opposes this change, the attached file includes the Remaining Life Depreciation Accrual schedules prepared by Gannett Fleming that separates the Albert Lea and Cloquet Service Centers from the minor grouping. With the separation of these two buildings, the attached file also reflects updates to previously provided schedules for the Rochester and Rosemont Service Centers and the minor grouping that are further discussed below.

Response by Greg Cieslewicz
Title Lead Analyst
Department Property Accounting
Telephone 920-433-1087

The exclusion of the Albert Lea Service Center from the minor grouping would result in the same remaining life attributes as the Rosemount Service Center as each facility was placed in-service in the same year. However, the Albert Lea building was not included in the major grouping as it did not meet all the criteria MERC proposed for inclusion of buildings in the major grouping and as such, MERC opposes moving Albert Lea Service Center to the major grouping to depreciate it individually.

As discussed in DOC Information Request No. 6, the Cloquet Service Center reflects two major independent capital investments. While its initial investment occurred in 1980, a significant subsequent investment was made in 1992 for a building addition. The use of a life span coupled with a truncated survivor curve used for the major grouping does not account for this investment pattern and therefore results in a remaining life that is much lower than is appropriate. MERC opposes moving the Cloquet Service Center to the major grouping to depreciate it individually for not only the reasons discussed above, but also that it does not meet either criteria proposed for inclusion of this building in the major grouping.

If the Albert Lea and Cloquet Service Centers are excluded from the minor grouping, it would significantly change the vintage surviving plant used in depreciation study analytics for the minor grouping assets. As a result, the Iowa Survivor Curve of 45-R2 for the minor grouping is no longer statistically supported. Gannett Fleming provides that an Iowa Survivor Curve of 45-S0 would statistically be more appropriate. The change to the minor grouping's survivor curve has further implications. The use of a 45-S0 Iowa Survivor Curve results in a revised calculated theoretical depreciation reserve and resulting ratio. Attachment 3 (inclusive of supporting schedules) of MERC's Petition and OAG Information Request No. 12, would reflect a change to the calculated theoretical reserve from $3,790,607 to $3,976,776 and a corresponding change in the ratio from 68% to 65%. The change in the ratio further impacts the calculated composite remaining life and annual accrual rate for each building in the major grouping as well as the minor grouping. The impacts to the Rochester and Rosemont Service Centers are rather small as a result of their recent in-servicing. The change to the minor grouping is more apparent. The establishment of two additional individually depreciated buildings results in separate remaining lives and depreciation rates for those buildings. The change to both the minor grouping's vintage surviving plant and its Iowa Survivor Curve also results in changes to its remaining lives and depreciation rates as set forth in the attached file.

If the Albert Lea and Cloquet Service Centers are depreciated individually, MERC's annual depreciation expense would increase by approximately $32.0K. This impact is in addition to the $32.0K increase in annual depreciation expense already included in Statement 2A to MERC's May 31, 2019 Petition based on the Company's proposed modifications related to Account 390.

Please refer to OAG Information Request No. 12 for discussion on how the book reserve is distributed to each building, noting however that the ratio would now be 65%.

Response by Greg Cieslewicz
Title Lead Analyst
Department Property Accounting
Telephone 920-433-1087

MINNESOTA ENERGY RESOURCES CORPORATION

ACCOUNT 390.00 STRUCTURES AND IMPROVEMENTS - MAJOR

CALCULATED REMAINING LIFE DEPRECIATION ACCRUAL
RELATED TO ORIGINAL COST AS OF DECEMBER 31, 2018

YEAR (1)	ORIGINAL COST (2)	CALCULATED ACCRUED (3)	ALLOC. BOOK RESERVE (4)	FUTURE BOOK ACCRUALS (5)	REM. LIFE (6)	ANNUAL ACCRUAL (7)
ROCHESTER SERVICE CENTER						
INTERIM SURVIVOR CURVE.. IOWA 75-R2.5						
PROBABLE RETIREMENT YEAR.. 6-2063						
NET SALVAGE PERCENT.. -10						
2008	3,193,360.22	683,325	443,025	3,069,672	41.53	73,915
2012	14,421.85	2,053	1,331	14,533	42.04	346
2014	33,734.52	3,448	2,235	34,873	42.27	825
	3,241,516.59	688,826	446,591	3,119,077		75,086

COMPOSITE REMAINING LIFE AND ANNUAL ACCRUAL RATE, PERCENT .. 41.5 2.32

MINNESOTA ENERGY RESOURCES CORPORATION

ACCOUNT 390.00 STRUCTURES AND IMPROVEMENTS - MAJOR

CALCULATED REMAINING LIFE DEPRECIATION ACCRUAL
RELATED TO ORIGINAL COST AS OF DECEMBER 31, 2018

YEAR (1)	ORIGINAL COST (2)	CALCULATED ACCRUED (3)	ALLOC. BOOK RESERVE (4)	FUTURE BOOK ACCRUALS (5)	REM. LIFE (6)	ANNUAL ACCRUAL (7)
ROSEMOUNT SERVICE CENTER						
INTERIM SURVIVOR CURVE.. IOWA 75-R2.5						
PROBABLE RETIREMENT YEAR.. 6-2072						
NET SALVAGE PERCENT.. -10						
2017	6,949,317.28	213,504	138,422	7,505,827	50.12	149,757
	6,949,317.28	213,504	138,422	7,505,827		149,757

COMPOSITE REMAINING LIFE AND ANNUAL ACCRUAL RATE, PERCENT .. 50.1 2.15

MINNESOTA ENERGY RESOURCES CORPORATION

ACCOUNT 390.00 STRUCTURES AND IMPROVEMENTS - MAJOR

CALCULATED REMAINING LIFE DEPRECIATION ACCRUAL
RELATED TO ORIGINAL COST AS OF DECEMBER 31, 2018

YEAR (1)	ORIGINAL COST (2)	CALCULATED ACCRUED (3)	ALLOC. BOOK RESERVE (4)	FUTURE BOOK ACCRUALS (5)	REM. LIFE (6)	ANNUAL ACCRUAL (7)
ALBERT LEA SERVICE CENTER						
INTERIM SURVIVOR CURVE.. IOWA 75-R2.5						
PROBABLE RETIREMENT YEAR.. 6-2072						
NET SALVAGE PERCENT.. -10						
2017	1,340,956.18	41,198	26,710	1,448,342	50.12	28,897
	1,340,956.18	41,198	26,710	1,448,342		28,897

COMPOSITE REMAINING LIFE AND ANNUAL ACCRUAL RATE, PERCENT .. 50.1 2.15

MINNESOTA ENERGY RESOURCES CORPORATION

ACCOUNT 390.00 STRUCTURES AND IMPROVEMENTS - MAJOR

CALCULATED REMAINING LIFE DEPRECIATION ACCRUAL
RELATED TO ORIGINAL COST AS OF DECEMBER 31, 2018

YEAR (1)	ORIGINAL COST (2)	CALCULATED ACCRUED (3)	ALLOC. BOOK RESERVE (4)	FUTURE BOOK ACCRUALS (5)	REM. LIFE (6)	ANNUAL ACCRUAL (7)
CLOQUET SERVICE CENTER						
INTERIM SURVIVOR CURVE.. IOWA 75-R2.5						
PROBABLE RETIREMENT YEAR.. 6-2035						
NET SALVAGE PERCENT.. -10						
1980	354,371.22	271,942	176,310	213,499	15.59	13,695
1981	17,828.15	13,572	8,799	10,812	15.63	692
1982	592,235.97	447,045	289,835	361,624	15.67	23,077
1983	25,595.46	19,150	12,416	15,739	15.71	1,002
1987	38,337.96	27,571	17,875	24,296	15.84	1,534
1988	51,975.00	36,960	23,962	33,210	15.87	2,093
1989	190.54	134	87	123	15.90	8
1990	1,166.00	809	525	758	15.92	48
1991	18,878.60	12,930	8,383	12,383	15.95	776
1992	1,334,601.49	901,126	584,232	883,829	15.98	55,308
1993	1,979.96	1,317	854	1,324	16.00	83
1998	8,835.43	5,364	3,478	6,241	16.11	387
2002	8,294.34	4,543	2,945	6,178	16.18	382
2005	51,121.59	25,220	16,351	39,883	16.22	2,459
2008	9,965.00	4,248	2,754	8,207	16.26	505
2010	31,440.54	11,711	7,593	26,992	16.29	1,657
2011	5,793.24	1,984	1,286	5,086	16.30	312
2012	86,185.75	26,687	17,302	77,502	16.31	4,752
2013	67,748.88	18,553	12,029	62,495	16.32	3,829
2014	115,524.16	27,117	17,581	109,496	16.33	6,705
2015	38,670.24	7,416	4,808	37,729	16.34	2,309
2018	279,435.47	9,117	5,911	301,468	16.36	18,427
	3,140,174.99	1,874,516	1,215,316	2,238,876		140,040

COMPOSITE REMAINING LIFE AND ANNUAL ACCRUAL RATE, PERCENT .. 16.0 4.46

MINNESOTA ENERGY RESOURCES CORPORATION

ACCOUNT 390.01 STRUCTURES AND IMPROVEMENTS - MINOR

CALCULATED REMAINING LIFE DEPRECIATION ACCRUAL
RELATED TO ORIGINAL COST AS OF DECEMBER 31, 2018

YEAR (1)	ORIGINAL COST (2)	CALCULATED ACCRUED (3)	ALLOC. BOOK RESERVE (4)	FUTURE BOOK ACCRUALS (5)	REM. LIFE (6)	ANNUAL ACCRUAL (7)
SURVIVOR CURVE.. IOWA 45-S0						
NET SALVAGE PERCENT.. -10						
1965	25,877.53	19,483	12,632	15,833	14.20	1,115
1968	35,294.41	25,468	16,512	22,312	15.48	1,441
1974	20,757.30	13,639	8,843	13,990	18.12	772
1977	1,325.06	827	536	922	19.48	47
1979	18,100.79	10,885	7,057	12,854	20.40	630
1981	76,997.24	44,513	28,859	55,838	21.35	2,615
1982	395.13	224	145	290	21.82	13
1983	1,015.25	563	365	752	22.30	34
1985	1,224.30	650	421	926	23.28	40
1986	1,050.71	545	353	803	23.78	34
1987	125,432.44	63,530	41,189	96,787	24.28	3,986
1988	138,030.57	68,223	44,231	107,603	24.78	4,342
1989	187,791.33	90,432	58,630	147,940	25.30	5,847
1990	114,869.14	53,883	34,934	91,422	25.81	3,542
1991	144,521.55	65,922	42,740	116,234	26.34	4,413
1992	336,563.51	149,158	96,705	273,515	26.87	10,179
1993	109,693.54	47,192	30,596	90,067	27.40	3,287
1994	68,701.57	28,633	18,564	57,008	27.95	2,040
1995	1,350.36	545	353	1,132	28.50	40
1997	40,942.63	15,393	9,980	35,057	29.62	1,184
1998	13,140.15	4,757	3,084	11,370	30.19	377
2003	3,241.68	935	606	2,960	33.20	89
2004	2,917.60	796	516	2,693	33.84	80
2005	137,574.24	35,378	22,937	128,395	34.48	3,724
2006	154,651.23	37,274	24,166	145,950	35.14	4,153
2007	299,382.04	67,254	43,603	285,717	35.81	7,979
2008	11,330.89	2,354	1,526	10,938	36.50	300
2009	249,655.92	47,600	30,861	243,761	37.20	6,553
2010	64,275.59	11,124	7,212	63,491	37.92	1,674
2011	221,957.08	34,399	22,302	221,851	38.66	5,739
2012	495,805.70	67,628	43,846	501,540	39.42	12,723
2013	592,852.34	69,707	45,194	606,944	40.19	15,102
2014	214,904.15	21,013	13,624	222,771	41.00	5,433
2015	321,010.22	24,873	16,126	336,985	41.83	8,056
2016	519,310.19	29,453	19,096	552,145	42.68	12,937
2017	129,026.98	4,479	2,904	139,026	43.58	3,190
	4,880,970.36	1,158,732	751,248	4,617,819		133,710

COMPOSITE REMAINING LIFE AND ANNUAL ACCRUAL RATE, PERCENT .. 34.5 2.74

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/D-19-377	☐Nonpublic	☒Public
Requested From:	Minnesota Energy Resources Corp.	Date of Request:	June 17, 2019
Type of Inquiry:	Financial	Response Due:	June 27, 2019

Requested by:	Craig Addonizio
Email Address(es):	craig.addonizio@state.mn.us
Phone Number(s):	651-539-1818

Request Number: 3

Topic:	Account 390 Major Grouping 55 Yr. Life Span
Reference(s):	Petition, Attachment 3, page 7

Request:

Please provide support for the proposed 55 year life span for each of the service centers in the Major Grouping.

MERC Response:

While each building is unique, the company's experience with building life span is in the 50-60 year time frame. Many factors influence this range, including type and quality of construction, design details, preventative maintenance practices and capital renewals performed during the building's lifecycle. At 50-60 years of age, many of the building systems that have been replaced at 20-25 years will be nearing a second round of renewal needs, including roofing systems, HVAC systems, lighting, furniture and interior finishes. In addition, at 50-60 years significant major building systems and components, including plumbing, electrical systems, glazing, and external cladding, will require capital renewal. These capital renewal costs drive an evaluation of the building suitability to meet the current operational needs of the company and customers, along with an analysis of replacement cost versus investing significant dollars into renewal of a building structure that is 50-60 years old.

To be completed by responder

Response Date:	June 27, 2019
Response by:	Robert Juidici (contact information via MERC – Tina Wuyts)
Email Address:	tina.wuyts@wecenergygroup.com
Phone Number:	920-433-4951

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-19-377

Dated this **9th** day of **August 2019**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_19-377_D-19-377
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_19-377_D-19-377
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_19-377_D-19-377
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Brian	Meloy	brian.meloy@stinson.com	STINSON LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-377_D-19-377
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-377_D-19-377
Catherine	Phillips	catherine.phillips@we-energies.com	We Energies	231 West Michigan St Milwaukee, WI 53203	Electronic Service	No	OFF_SL_19-377_D-19-377
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_19-377_D-19-377
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Tina E	Wuyts	tina.wuyts@wecenergygroup.com	Minnesota Energy Resources Corporation	PO Box 19001 700 N Adams St Green Bay, WI 54307-9001	Electronic Service	No	OFF_SL_19-377_D-19-377