

August 23, 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. E111/D-17-505

Dear Mr. Wolf:

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

Dakota Electric Association's petition for approval of its five-year Depreciation Study.

The petition was filed on June 26, 2017 by:

Douglas R. Larson
Vice President of Regulatory Affairs
Dakota Electric Association
4300 220th Street West
Farmington, Minnesota 55024

The Department recommends **approval** and is available to answer any questions the Commission may have.

Sincerely,

/s/ DALE V. LUSTI
Financial Analyst

DVL/lt
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E111/D-17-505

I. SUMMARY OF PROPOSAL

On June 26, 2017, Dakota Electric Association (Dakota or the Cooperative) submitted its five-year depreciation study for 2017 as required by Minnesota Rules parts 7825.0600 through 7825.0900. Dakota's previous five-year depreciation study was approved by the Minnesota Public Utilities Commission (Commission) on October 30, 2012 in Docket No. E111/D-12-588.

Dakota proposes several changes to its average service lives, salvage values, and resulting depreciation rates. If approved, Dakota's proposed changes would result in a \$391,521 net increase to its annual depreciation expense.

Dakota requests that its proposed depreciation rates be deemed effective January 1, 2017.

II. DEPARTMENT ANALYSIS

A. DEPRECIATION RULES

Minnesota Statutes Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900 require public utilities to seek Commission approval of their depreciation practices. Utilities must also 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, life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies. When companies choose the remaining-life technique for depreciating group property accounts, the underlying life and salvage factors may not change, but depreciation rates are adjusted annually to reflect the passage of time on remaining lives, as well as the impact of plant additions and retirements. Annual depreciation study updates are required when the remaining-life technique is employed to allow the Commission the opportunity to approve changes in depreciation rates.

Dakota uses straight-line, broad-group, whole-life (average service life)¹ depreciation rates to depreciate its accounts. As a result, Dakota must file a depreciation study once every five years for these accounts.

B. PROPOSED CHANGES TO SERVICE LIVES, SALVAGE VALUES, AND DEPRECIATION ACCRUALS

The life studies presented in Dakota’s petition are based on December 31, 2016 plant-in-service information. The present and proposed Average Service Lives (ASL) and Average Net Salvage Values are presented in the following table. Asterisks and bolded entries indicate where Dakota proposed changes.

Table 1: Dakota’s Present and Proposed Average Lives and Net Salvage Values

<u>Account</u>	<u>Account Title</u>	<u>Present</u>		<u>Proposed</u>		
		<u>Years</u>	<u>Salvage</u>	<u>Years</u>	<u>Salvage</u>	
Distribution Plant						
36000	Land and Land Rights	n/a	n/a	n/a	n/a	
36200	Station Equipment	37.0	0.0%	37.0	0.0%	
36250	Station Equipment-DSM	11.0	0.0%	11.0	0.0%	
36255	Station Equipment-DSM-Post 2009	11.0	0.0%	11.0	0.0%	
36260	Station Equipment-Comm	6.0	0.0%	6.0	0.0%	
36265	Station Equipment-Comm-Post 2009	6.0	0.0%	6.0	0.0%	
36400	Poles, Towers, and Fixtures	29.0	-5.0%	29.0	-5.0%	
36500	Overhead Conductors and Devices	30.0	2.0%	30.0	2.0%	
36700	Underground Conductors and Devices	33.0	5.0%	33.0	5.0%	
36710	Pre-1978 Cable	n/a	n/a	n/a	n/a	
36800	Line Transformers	29.0	10.0%	29.0	10.0%	
36900	Services	35.0	-20.0%	35.0	-20.0%	
* 37000	Meters	25.0	0.0%	15.0	0.0%	
* 37020	Meters-Used	15.0	0.0%	5.0	0.0%	
* 37050	Load Control Meters-DSM	25.0	0.0%	15.0	0.0%	
* 37100	Installations on Customers' Premises	20.0	-7.0%	20.0	-10.0%	
* 37120	Installations on Customers' Premises - LED	n/a	n/a	16.0	0.00	
37150	Load Control Receivers-DSM	12.0	0.0%	12.0	0.0%	
* 37300	Street Lighting and Signal Systems	22.0	10.0%	22.0	-5.0%	
* 37320	Street Lighting and Signal System – LED	n/a	n/a	16.0	0.0%	

¹ Whole-life depreciation rates are based on average service lives.

<u>Account</u>	<u>Account Title</u>	<u>Present</u>		<u>Proposed</u>		
		<u>Years</u>	<u>Salvage</u>	<u>Years</u>	<u>Salvage</u>	
General Plant						
38900	Land and Land Rights	n/a	n/a	n/a	n/a	
* 39000	Structure and Improvements	37.5	12.5%	34.5	18.95%	
39050	Security Equipment	6.0	0.0%	6.0	0.0%	
39100	Office Furniture and Equipment	12.0	0.0%	12.0	0.0%	
* 39110	Computer Equipment	5.4	0.0%	5.0	0.0%	
39120	Computer Equipment DSM	6.0	0.0%	6.0	0.0%	
39130	Computer Equipment-Leased	4.0	0.0%	4.0	0.0%	
39200	Autos & Small Trucks	7.0	10.0%	7.0	10.0%	
39300	Stores Equipment	15.0	0.0%	15.0	0.0%	
39400	Tools and Line Equipment	16.0	0.0%	16.0	0.0%	
39410	Shop and Garage Equipment	20.0	0.0%	20.0	0.0%	
39450	Tools and Line Equip.-DSM	16.0	0.0%	16.0	0.0%	
* 39500	Laboratory Equipment	20.0	0.0%	15.0	0.0%	
39510	Hand Held Meter Reading Devices	6.0	0.0%	6.0	0.0%	
39620	Power Operated Equipment	12.0	5.0%	12.0	5.0%	
* 39630	Heavy Transportation Equipment	14.22	9.54%	11.8	9.54%	
39700	Communication Equipment	7.5	0.0%	7.5	0.0%	
39710	Base Station and Tower	20.0	0.0%	20.0	0.0%	
39800	Miscellaneous Equipment	9.0	0.0%	9.0	0.0%	
* Indicates where changes are proposed						

The following table shows Dakota's present and proposed annual accruals and the change in annual accrual due to Dakota's proposal.

Table 2: Dakota's Present and Proposed Depreciation Accruals

Account No.	Estimated Average Balance in 2017	Present		Proposed		Difference Increase (Decrease)
		Accrual Rate	Annual Accrual	Accrual Rate	Annual Accrual	
Distribution Plant						
36000	\$ 4,023,863		n/a		n/a	n/a
36200	\$ 30,054,387	2.70%	\$ 811,468	2.70%	\$ 811,468	\$ -
36250	\$ 3,931,509	9.09%		9.09%		\$ -
36255	\$ 1,015,103	9.09%	\$ 92,273	9.09%	\$ 92,273	\$ -
36260	\$ 722,966	16.67%	\$ -	16.67%		\$ -
36265	\$ 892,894	16.67%	\$ 148,845	16.67%	\$ 148,845	\$ -
36400	\$ 18,610,697	3.62%	\$ 673,707	3.62%	\$ 673,707	\$ -
36500	\$ 20,246,633	3.27%	\$ 662,065	3.27%	\$ 662,065	\$ -
36700	\$ 118,105,769	2.88%	\$ 3,401,446	2.88%	\$ 3,401,446	\$ -
36710	\$ -	n/a	n/a	n/a	n/a	n/a
36800	\$ 38,941,696	3.10%	\$ 1,207,193	3.10%	\$ 1,207,193	\$ -
36900	\$ 3,342,678	3.43%	\$ 114,654	3.43%	\$ 114,654	\$ -
37000	\$ 6,890,025	4.00%	\$ 275,601	6.67%	\$ 459,565	\$ 183,964
37020	\$ 85,400	6.67%	\$ 5,696	20.00%	\$ 17,080	\$ 11,384
37050	\$ 633,490	4.00%	\$ 25,340	6.67%	\$ 42,254	\$ 16,914
37100	\$ 209,827	5.35%	\$ 11,226	5.50%	\$ 11,540	\$ 314
37120	\$ 182,556	0.00%	\$ -	6.25%	\$ 11,410	\$ 11,410
37150	\$ 226,858	8.33%	\$ -	8.33%	\$ -	\$ -
37300	\$ 7,969,187	4.09%	\$ 325,940	4.77%	\$ 380,130	\$ 54,190
37320	\$ 57,490	0.00%	\$ -	6.25%	\$ 3,593	\$ 3,593
Subtotal	\$ 256,143,028		\$ 7,755,454		\$ 8,037,223	\$ 281,769
General Plant						
38900	\$ 102,278		n/a		n/a	
39000	\$ 7,935,170	2.33%	\$ 184,889	2.54%	\$ 201,553	\$ 16,664
39050	\$ 284,216	16.67%	\$ 47,379	16.67%	\$ 47,379	\$ -
39100	\$ 1,036,529	8.33%	\$ 86,343	8.33%	\$ 86,343	\$ -
39110	\$ 1,432,598	14.69%	\$ 725,916	16.33%	\$ 806,573	\$ 80,657
39120	\$ 5,008,107	16.67%	\$ 238,814	16.67%	\$ 238,814	\$ -
39130	\$ 366,953	25.00%	\$ 91,738	25.00%	\$ 91,738	\$ -
39200	\$ 1,918,093	10.58%	\$ 205,544	10.58%	\$ 205,544	\$ -
39300	\$ 54,554	6.67%	\$ 3,639	6.67%	\$ 3,639	\$ -
39400	\$ 708,399	6.25%	\$ 44,275	6.25%	\$ 44,275	\$ -
39410	\$ 160,146	5.00%	\$ 8,007	5.00%	\$ 8,007	\$ -
39450	\$ -	6.25%	\$ -	6.25%	\$ -	\$ -
39500	\$ 363,008	5.00%	\$ 18,150	6.67%	\$ 24,213	\$ 6,063
39510	\$ 90,362	16.67%	\$ 15,063	16.67%	\$ 15,063	\$ -
39620	\$ 1,024,459	6.86%	\$ 70,278	6.86%	\$ 70,278	\$ -
39630	\$ 4,495,988	4.71%	\$ 214,994	4.85%	\$ 221,362	\$ 6,368
39700	\$ 853,195	13.33%	\$ 113,731	13.33%	\$ 113,731	\$ -
39710	\$ 137,908	5.00%	\$ 6,895	5.00%	\$ 6,895	\$ -
39800	\$ 274,807	11.11%	\$ 30,531	11.11%	\$ 30,531	\$ -
Subtotal	\$ 26,246,770		\$ 2,106,186		\$ 2,215,938	\$ 109,752
Total	\$ 282,389,798		\$ 9,861,640		\$ 10,253,161	\$ 391,521

The study consisted of interviewing key Dakota personnel; updating the 80-year data base of plant additions, retirements and adjustments; reviewing plant activity over the past five years; and combining the gathered information to form a basis for anticipated lives and salvage values over the next five-year period.

Based on its judgment and past experience, Dakota proposed to adjust nine accounts, and created two new sub-accounts. The proposed adjustments are largely related to meters, street lighting and computers. According to the Cooperative:

- The retirement of existing meters will be accelerated due to technological advances;
- With emerging light technologies, the future gross salvage value of fixtures will have no appreciable value; and
- The service life of computer equipment is dictated by the rapid deployment of computer technology.

The net impact of Dakota's proposed changes is an increase of \$391,521 in the annual depreciation accrual. Since Dakota serves approximately 105,000 Minnesota customers, the proposed changes would result in a \$3.73 annual increase in depreciation expense per customer. In the absence of a general rate case, the increased depreciation expense would have no impact on ratepayers at this time.

The Department examined Dakota's petition for the reasonableness of the proposed service lives, salvage rates, and accruals. Based on our analysis, the Department concludes that the proposed service lives, salvage rates, and resulting depreciation rates are supported by analysis and are reasonable.

C. RESERVE RATIO ANALYSIS

The reserve ratios for the last five years are presented in Table 3 below:

Table 3: Dakota's Reserve Ratio

	Plant	Reserve	Reserve Ratio
2016	280,981,520	117,157,920	41.70%
2015	274,760,196	112,511,485	40.95%
2014	264,572,661	108,165,139	40.88%
2013	259,168,736	104,329,178	40.26%
2012	256,377,720	101,233,323	39.49%

The above reserve ratios indicate the percentage of plant depreciated or expensed by the end of each fiscal year. As of the end of 2016, approximately 42 percent of electric utility plant has been expensed. Based on our analysis, the reserve ratio appears reasonable.

III. RECOMMENDATION

The Department recommends that the Commission approve Dakota's requested service lives, salvage rates, and resulting depreciation rates as Dakota proposed.

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