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July 31, 2015

**VIA ELECTRONIC FILING**

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 Seventh Place East, Suite 350  
St. Paul, MN 55101

**Re: Reply Comments of Minnesota Energy Resources Corporation  
Request by Minnesota Energy Resources Corporation for its Annual  
Review of Depreciation Rates for 2015, Docket No. G011/D-15-534**

Dear Mr. Wolf:

Minnesota Energy Resources Corporation (MERC or the Company) submits these Reply Comments in response to the Comments filed by the Department of Commerce, Division of Energy Resources (Department) on July 20, 2015.

In its Comments, the Department recommended that, with one exception, the Minnesota Public Utilities Commission (Commission) approve the service lives, salvage rates, and resulting depreciation rates effective January 1, 2015, that MERC proposed in the above-referenced docket. The Department recommended that the Commission deny MERC's request to use the current depreciation rate of 0.18 percent for new investment in Trailers, Account 392. Additionally, the Department requested that, in Reply Comments, MERC provide a discussion on whether a full study of all accounts, including the purchased IPL property, can be completed by June 1, 2016, rather than June 1, 2017.

MERC appreciates the Department's review and agrees with the Department's recommendation to approve the depreciation rates effective January 1, 2015. Additionally, MERC agrees with the Department's recommendation to use the General Plant composite depreciation rate for new investment in Trailers, Account 392.

MERC responds to the Department's Comments below:

**A. Depreciation Rate for New Investment in Trailers**

In its Comments, the Department recommended that the Commission deny MERC's request to use the current depreciation rate of 0.18 percent for new investment in Trailers, Account 392. In making this recommendation, the Department noted that the Trailer equipment is fully depreciated but may have future investments in the account. The Department referenced the Commission's July 29, 2013, *Order Certifying Depreciation Rates and Methods with*

*Modification, Requiring Filing* in Docket No. G007,011/D-12-533, in which the Commission approved MERC's proposal to use functional composite depreciation rates for asset classes that arise in the future for which no depreciation rate is currently approved or for asset classes that are fully depreciated but may have future investment. However, the Commission stated that "[t]he rates may be used only until MERC files its next five-year depreciation study or upon separate filing by MERC requesting certification of a new rate." Given the Commission's statement and because the proposed composite depreciation rate for General Plant is 4.47 percent for all 2015 investment Trailers, the Department recommended that the Commission deny MERC's request to use a depreciation rate of 0.18 percent for new investment in Trailers.

MERC agrees with the Department's recommendation to use the General Plant composite depreciation rate for future investment in Trailers, Account 392. MERC recognizes that this account became fully depreciated in 2015 and agrees to use the proposed General Plant composite depreciation rate of 4.47 percent until MERC files its next five-year depreciation study or upon separate filing by MERC requesting certification of a new rate.

**B. Full Study of All Accounts, Including the Property Purchased from Interstate Power and Lights, by June 1, 2016**

The Department's Comments also discussed the application of MERC's depreciation rates to property that MERC acquired recently from Interstate Power and Light (IPL). MERC proposed to incorporate IPL property into MERC's next five-year depreciation study. The Department observed that MERC's next five-year depreciation study is not due until June 1, 2017. The Department reasoned that given that the IPL asset acquisition represents an "unusual and extensive addition to MERC's assets, it may be appropriate to complete the full study as soon as practicable." Accordingly, the Department requested that MERC discuss in Reply Comments whether a full study of all accounts, including the purchased IPL property can be completed by June 1, 2016, rather than June 1, 2017.

MERC proposes to maintain the schedule and complete a full study by June 1, 2017. While MERC acknowledges that a study could be undertaken in 2016, MERC questions the benefit in doing so. Though the acquisition of IPL's gas assets may be unusual, the dollar amount of the acquired assets does not represent an extensive addition. The IPL assets acquired, \$17,690,000 at cost, represents only 4.3% of MERC's plant assets at the time of purchase. MERC discussed the asset acquisition with John Spanos of Gannett Fleming, its depreciation consultant. Mr. Spanos also completed the depreciation study for the IPL assets. In Mr. Spanos' opinion, the acquired assets would have an insignificant impact to the depreciable lives, curves, or net salvage percentages currently in place for MERC. Based on the above discussion, MERC believes the June 1, 2017, date remains appropriate.

Please contact me at (651) 322-8965 if you have any questions.

Sincerely,

/s/ Amber S. Lee

Amber S. Lee  
Regulatory and Legislative Affairs Manager  
Minnesota Energy Resources Corporation

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA            )  
  ) ss  
COUNTY OF HENNEPIN        )

Kristin M. Stastny hereby certifies that on the 31st day of July, 2015, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of the attached Reply Comments on [www.edockets.state.mn.us](http://www.edockets.state.mn.us). Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

/s/ Kristin M. Stastny  
Kristin M. Stastny

Subscribed and sworn to before me  
This 31st Day of July, 2015.

/s/ Alice Jaworski  
Notary Public, State of Minnesota  
My Commission Expires: January 31, 2020

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