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August 21, 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 Letter filed by the Department of Commerce, Division of Energy Resources (Department) on August 13, 2015.

In MERC's July 31, 2015, Reply Comments, MERC responded to the Department's June 20, 2015, Comments inquiring as to whether a full depreciation study could be completed by June 1, 2016, rather than June 1, 2017. MERC proposed to maintain the schedule to complete a depreciation study by June 1, 2017, but did acknowledge that a depreciation study could be completed by June 1, 2016, if the Commission decides that an earlier study should be undertaken.

On August 13, 2015 the Department filed a letter stating:

If MERC were not expected to file a rate case in the near term, the Department might agree with the Company that the extensive review could wait. However, Minn. Stat. § 216B.16, subd. 4 states that "[t]he burden of proof to show that the rate change is just and reasonable shall be upon the public utility seeking the change." Given that a significant focus of that rate proceeding will be to incorporate the costs of IPL's gas utility assets in rates, it is not clear how the record will be developed adequately for the Commission to make the determinations required in Minn. Stat. § 216B.16 subd. 4, which states: The commission, in the exercise of its powers under this chapter to determine just and reasonable rates for public utilities, shall give due consideration to the public need for adequate, efficient, and reasonable service and to the need of the public utility for revenue sufficient

to enable it to meet the cost of furnishing the service, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property. In determining the rate base upon which the utility is to be allowed to earn a fair rate of return, the commission shall give due consideration to evidence of the cost of the property when first devoted to public use, to prudent acquisition cost to the public utility less appropriate depreciation on each, to construction work in progress, to offsets in the nature of capital provided by sources other than the investors, and to other expenses of a capital nature. For purposes of determining rate base, the commission shall consider the original cost of utility property included in the base and shall make no allowance for its estimated current replacement value.

The Department concluded that “if MERC is unable to provide a full depreciation study in time for its upcoming general rate case, the Commission may wish to set rates in that proceeding on a provisional basis, subject to later review of MERC’s depreciable lives, curves, or net salvage rates, in the June 1, 2017 study.”

Contrary to the Department’s position, nothing in Minnesota Statutes 216B requires that a utility complete a depreciation study prior to or concurrent with a rate case filing. The requirement that MERC conduct a full depreciation study once every five years is not tied to MERC’s burden in a rate case proceeding. Further, MERC disagrees with the Department’s contention that MERC would be unable to meet its burden of proof to show that a proposed rate change is just and reasonable in the absence of a full depreciation study. We will use Commission-approved depreciation rates in the preparation of our initial rate case filing and as discussed below, the use of MERC’s rates would benefit the former IPL ratepayers.

Even if a full study were necessary, it is not feasible to complete a full depreciation study before the filing of MERC’s next rate case because there is insufficient time to adequately complete a study. MERC would have to integrate historical IPL plant balances and activity into MERC’s records as well as undertake an analysis of MERC’s own activity that has occurred since its last study. Simply put, we could not complete such a study before our next rate filing.

MERC acknowledges the Department’s concerns regarding the incorporation of IPL’s plant assets in rates but believes its proposal to maintain the previously approved schedule and to apply MERC’s existing depreciation lives, curves, and net salvage values to the acquired IPL assets is reasonable and appropriate. As discussed in MERC’s July 31, 2015, Reply Comments in this docket, although the acquisition of IPL’s gas assets may be unusual, the dollar amount of the acquired assets does not represent an extensive addition. The rate base of the IPL plant assets is equal to \$8,860,000 (gross plant of \$17,690,000 less accumulated reserve of \$8,830,000) or 3.6 percent of MERC’s total net plant as of July 31, 2015. The inclusion of IPL plant assets also results in an annual depreciation expense of approximately \$430,000 for those assets. MERC notes that depreciation expense

calculated using MERC's depreciation rates as proposed by MERC in this docket would result in approximately \$310,000 less expense than IPL's depreciation rates, and these lower depreciation rates will be captured in MERC's 2016 rate case filing.

In short, we disagree with the Department's position that a full depreciation study should be completed for our initial rate case filing and in any event the study cannot be completed by our anticipated filing date in late September. Though we would propose to maintain the original schedule to complete a study in 2017, we can initiate a full study for completion in 2016 if the Commission determines the schedule should be accelerated.

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

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 21st day of August, 2015, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed Reply Comments on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 21st day of August, 2015.

/s/ Kristin M. Stastny
Kristin M. Stastny

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