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April 10, 2017

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
350 Metro Square Building
121 7th Place East
St. Paul, Minnesota 55101-2147

RE: Comments of the Minnesota Department of Commerce, Division of Energy Resources
Docket No. E015/D-17-114

Dear Mr. Wolf:

On April 3, 2017, the Department of Commerce, Division of Energy Resources (Department) requested an extension of 7 days to file its comments on or before April 10, 2017. Pending a PUC decision on the request, the Department respectfully asks that the Commission accept these late-filed comments.

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

In the Matter of Minnesota Power's General Plant Depreciation Petition.

The petition was filed on February 28, 2017 by:

Debbra A. Davey
Supervisor, Accounting
Minnesota Power
30 West Superior Street
Duluth, MN 55802

The Department recommends that the Minnesota Public Utilities Commission (Commission) approve Minnesota Power's (MP) Petition. The Department 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

DOCKET No. E015/D-17-114

I. SUMMARY OF MINNESOTA POWER'S PROPOSAL

On February 28, 2017, Minnesota Power (MP or the Company) submitted its 2017 General Plant Depreciation Petition (Petition). Minnesota Power has reviewed its depreciation rates for all general plant accounts except those subject to remaining life depreciation, which are addressed in MP's Remaining Life Depreciation Petition, Docket No. E015/D-17-118. Minnesota Power also reviewed Account 301, Organization; Account 302, Franchises and Consents; and Account 303, Miscellaneous Intangible Plant in compliance with the May 31, 2013 Minnesota Public Utilities Commission (Commission) Order in Docket No. E015/D-12-379.

Minnesota Power requests that all previously approved service lives, salvage rates, and depreciation rates be re-approved as Minnesota Power is not requesting any changes to those lives and rates.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) examined MP's Petition for compliance with filing requirements and previous Commission Orders, and for reasonableness of the proposed depreciation parameters.

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 the utility can justify a different method. When utilities use the average service life technique to depreciate group property accounts, the 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.

MP applies the average service life technique to the accounts included in its Petition and, as a result, must file depreciation studies for these accounts at least once every five years.

B. REASONABLENESS OF PROPOSED DEPRECIATION PARAMETERS

The Department examined MP's Petition for the reasonableness of the proposed service lives and salvage rates, and the resulting depreciation rates and accruals. As part of this examination, the Department reviewed the Company's 2016 plant and depreciation reserve schedules. The Department also reviewed MP's reserve and plant balances over the preceding five years to evaluate the proposed reserve ratio. The reserve ratios over the past five years for Minnesota jurisdictional equipment are presented below.

Table 1: Minnesota Power's Reserve Ratio

Year	Total General Plant Balance	Reserve Balance	Reserve Ratio
2016	\$ 184,599,788	\$ 111,065,889	60.17%
2015	\$ 185,327,537	\$ 106,711,574	57.58%
2014	\$ 159,882,889	\$ 97,908,346	61.24%
2013	\$ 157,719,185	\$ 93,579,415	59.33%
2012	\$ 147,899,862	\$ 85,933,350	58.10%

Based on this review, the Department concludes that MP's proposed depreciation parameters are reasonable.

C. LARGE ADDITIONS IN 2015 AND LARGE RETIREMENTS IN 2016

Exhibit A to MP's Petition contains a set of spreadsheets detailing plant balances, additions, retirements, transfers and adjustments for the years 2012 through 2016. As part of its review, the Department asked the Company in Department Information Request No. 2 to describe the nature of the large additions in 2015 and retirements in 2016.¹ In its response, the Company stated the large addition in 2015 was primarily due to the new Customer Information System (CIS) going into service for \$17.2 million. Similarly, the large retirement in 2016 was due to the retirement of the old CIS system.

¹ The Company's response to Department Information Request No. 3 is included with these Comments as Attachment 1.

III. RECOMMENDATIONS

Based on our review, the Department concludes that the depreciation parameters proposed in MP's Petition are reasonable. The Department recommends that the Commission:

1. Approve MP's 2017 General Plant Depreciation Petition; and
2. Require MP to file its next general plant depreciation petition by May 1, 2022.

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