July 31, 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. G004/D-19-376

Dear Mr. Wolf:

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

Petition of Great Plains Natural Gas for Approval of the 2019 Annual Depreciation Study.

The Application was filed on May 31, 2019 by:

Tamie Aberle, Director of Regulatory Affairs
Great Plains Natural Gas Company
P.O. Box 176
Fergus Falls, MN 56538
(701) 222-7856

The Department recommends that the Commission **approve the Petition, pending provision by Great Plains of the additional information requested in these Comments.** The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/GEMMA MILTICH
Financial Analyst

GM/ja
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G004/D-19-376

I. INTRODUCTION

On May 31, 2019, Great Plains Natural Gas Company (Great Plains or the Company), a division of the MDU Resources Group, Inc., filed its 2019 Annual Depreciation Study (Petition) with the Minnesota Public Utilities Commission (Commission). The Petition was prepared by the Company in conjunction with its consultant-preparer, Concentric Advisors. Great Plains has requested Commission approval for the depreciation rates and parameters proposed in its Petition. Specifically, the Company has proposed (1) depreciation rates that result in a composite rate of 4.32 percent, which reflects an overall increase of 0.01 percent compared to the 2018 composite depreciation rate of 4.31 percent[1] and (2) the initial depreciation parameters for account 366.0 – *Transmission Structures*, an account that has not yet been included in a 5-year depreciation study. The Company is seeking an effective date of January 1, 2019 for the proposed depreciation parameters and rates.

In addition, Great Plains' Petition includes information around its 2018 capital asset additions, retirements, transfers, and adjustments as well as an update on its PVC replacement program.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed Great Plains' Petition to (1) determine whether the Petition complies with applicable statutes, rules, and Commission orders, (2) evaluate the reasonableness of the Company's proposed depreciation rates and parameters, and (3) examine the 2018 capital asset additions, retirements, adjustments, and transfers, as these factors impact the development of depreciation rates. The Department also considered information provided by Great Plains on the Company's PVC replacement program. Throughout its review, the Department contemplated how Great Plains' Petition could potentially impact ratepayers. The following is a discussion of the items reviewed by the Department.

[1] The 2018 composite depreciation rate of 4.31 percent was approved by the Commission in Docket No. G004/D-18-369.

A. *COMPLIANCE WITH DEPRECIATION STATUTES, RULES, AND FILING REQUIREMENTS*

Minnesota Statutes, Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900, require public utilities to seek Commission approval of their depreciation rates and methods. Utilities must file comprehensive depreciation studies at least once every five years and must use Straight Line depreciation, unless the utility can justify a different method. Great Plains filed its last 5-year depreciation study in 2017 under Docket No. G004/D-17-450 and continues to use the Straight Line depreciation method, as it has done in the past.

In determining the depreciable (useful) lives of their capital assets, utilities may choose to apply an average service life or a remaining life technique. When utilities opt to use the average service life technique to depreciate group property (i.e. capital assets), the life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies. Conversely, when companies use the remaining life technique for depreciating group property, the underlying life and salvage factors may not change, but depreciation rates must be updated annually to reflect the passage of time and the impact of plant activity, such as additions and retirements, on remaining lives. A utility is required to file annual depreciation study updates when the remaining life technique is used; these updates give the Commission an opportunity to approve changes in depreciation rates. Because Great Plains employs the remaining life technique as a part of its depreciation methodology, it follows that the Company must submit depreciation study updates on an annual basis. The instant Petition provides the current year update as required.

Depreciation rates certified by Commission order remain in effect until the next certification or other applicable determination made by the Commission.[2] Great Plains reported using the most recently approved depreciation rates[3] to calculate depreciation expense for 2018.

Based on its review, the Department concludes that Great Plains has complied with the applicable statutes and rules.

B. *COMPLIANCE WITH PRIOR COMMISSION ORDERS*

The Commission's March 21, 2007 *Order* in Docket No. G004/D-06-700 required that all of Great Plains' future remaining life depreciation and amortization studies be effective on January 1 of the year for which the study is performed, beginning with the depreciation study performed for year-end 2007. Great Plains has appropriately requested that its proposed

[2] Minnesota Rule 7825.0900.
[3] The Commission most recently approved depreciation rates for Great Plains under Docket No. G004/D-18-369, and Great Plains reported using these approved rates in the depreciation calculations documented in its 2018 Jurisdictional Annual Report under Docket No. E,G999/PR-19-04 (Docket 19-04).

depreciation rates be effective January 1, 2019 and based on the December 31, 2018 plant and reserve balances.

Pursuant to the Commission's *Order* issued for the Company's 2018 annual depreciation study,[4] Great Plains provided the following information:

- An analysis of the accounts affected by the Company's PVC replacement program.[5]
- A summary of the additions, retirements, adjustments, and transfers for plant-in-service accounts and their associated accumulated depreciation accounts, as required by the Minnesota Rule 7825.0700.[6]
- The Minnesota-jurisdictional amounts for the Company's gas plant-in-service accounts and footnotes explaining why the 2018 beginning-of-year balances differ from the 2017 year-end balances reported in the Company's Jurisdictional Annual Report in Docket No. E, G-999/PR-18-04.[7]

Great Plains also provided details specific to its 2018 building retirements included in account 390 – *General Structures and Improvements*.[8] In its Comments related to Great Plains' 2018 annual depreciation study,[9] the Department expressed an interest in gaining a better understanding of how the Company accounts for its buildings used in regulatory operations. The Department appreciates Great Plains' effort to provide details around its building retirements in the current Petition.

The Department concludes that the Company has complied with prior Commission orders as required.

C. GREAT PLAINS' DEPRECIATION METHODOLOGY

As a capital asset is used in operations, it contributes, either directly or indirectly, to an entity's cash flows. Depreciation is a cost allocation method that allows an entity to approximately match the revenues generated by an asset with the cost of the asset over its useful life. It follows then that an asset's depreciable life and corresponding depreciation rate should be aligned with the time period in which the asset is used and useful.

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[4] Commission *Order* was issued on February 22, 2019 in Docket No. G004/D-18-369.
[5] See Petition Section 3.2 at page 3-2.
[6] See Table 2 and Table 3 in Section 5.1 of the Petition.
[7] Great Plains' 2018 Jurisdictional Annual Report was filed on April 23, 2019 under Docket No. 19-04.
[8] See Petition Attachment B.
[9] Docket No. G004/D-18-369.

1. *Statistical Determination of Asset Lives and Retirement Patterns*

One approach used by companies to establish the expected useful lives and retirement patterns of capital assets is to determine the appropriate Iowa curve for a group of like property and apply the corresponding statistical retirement analysis to the assets included in the relevant group. An Iowa curve is a survivor curve that represents a probability distribution relevant to the timing of asset retirements; the University of Iowa developed these standardized patterns of asset retirement dispersion during the 1950s. Through its work with consultant firms, Great Plains has assigned Iowa curves to the majority of the Company's group property accounts.[10] For most of its group property accounts, the Company has also applied average service lives (ASLs)[11] based on the statistical retirement analyses relevant to the different assets.[12] While the ASL of a group property account will generally be consistent between annual depreciation updates, the assets' *remaining* lives will generally change each year due to the impact of capital asset additions, retirements, transfers, and adjustments as well as the results of statistical analyses.

2. *Depreciation Calculations*

With a few noted exceptions, Great Plains has depreciated its group property accounts using the Straight Line method and Average Life Group (i.e. ALG or Broad Group) procedure, which are applied on a remaining life basis. Beginning with the Company's 2018 annual depreciation study and continuing in the current Petition, Great Plains has calculated the remaining lives of its group property with a Vintage Group approach. As applicable, the Company has used specialized depreciation software to calculate the ALG remaining life associated with each vintage (i.e. year) in which the Company capitalized costs[13] under a given group property account.[14] To compute the *composite* remaining life of a group property account, each vintage remaining life is weighted by the proportion of the *vintage* capitalization amount to the *total*

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[10] At this time, Great Plains does not assign an Iowa curve to its property accounts 375.0, 378.0, 381.0, and 383.0.
[11] The ASL is documented in the upper right corner of Section 5, *Detailed Depreciation Calculations*, of the Petition.
[12] For account 375.0 – *Distribution System Measuring and Regulating Station Structures*, the ASL is developed using the Life Span method; Great Plains uses the Life Span method exclusively for account 375.0. Great Plains' account 375.0 contains limited investments in distribution measuring and regulating station structures. See Great Plains' initial filing, dated May 23, 2017, in Docket G004/D-17-450 at page 4-17.
[13] See the remaining life figures documented under the columns titled "ALG Remaining Life" in Section 5, *Detailed Depreciation Calculations*, of the Petition.
[14] The remaining lives for several accounts are based at least in part on other factors. For example, the remaining lives for accounts 376.0 – *Mains*, 380.0 – *Services*, 381.0 – *Meters and Meter Installations*, and 383.0 – *House Regulators* are impacted by the progression of Great Plains' ongoing PVC replacement program.

account capitalization amount, and then the weighted vintage remaining lives are added together.[15]

Under the Vintage Group approach, Great Plains has allocated its booked accumulated depreciation among the vintages included in the relevant accounts. The booked accumulated depreciation is allocated in proportion to a "calculated accumulated depreciation" (CAD)[16] factor; like the ALG remaining life computation, the CAD is an output of specialized depreciation software and is calculated for each relevant vintage under a given group property account.[17] Generally, a variance exists between the booked accumulated depreciation and CAD for each vintage; the difference between these figures is an estimate at a point in time, rather than an actual variance indicating a true surplus or deficit in booked accumulated depreciation.[18] Determining whether and to what extent the accumulated depreciation should be adjusted is based on the relevant professional judgement.

Since the Company's addition of the Vintage Group approach to its depreciation methodology,[19] the annual depreciation accrual amount (the numerator of the depreciation rate computation) is subject to a more complex set of calculations and depends to a greater extent on survivor curve statistics than in years prior to the application of the Vintage Group approach.[20] However, the depreciation *rate* calculation continues to be performed in a manner typical of the Straight Line depreciation methodology: (total annual depreciation accrual / total original surviving capitalized cost included in the group property account).[21]

D. GREAT PLAINS' PROPOSED DEPRECIATION RATES AND PARAMETERS

As noted above, Great Plains has proposed (1) depreciation rates, effective January 1, 2019, that would result in a composite rate of 4.32 percent, which reflects an overall increase of 0.01 percent compared to the 2018 composite depreciation rate of 4.31 percent and (2) the initial

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[15] *Calculation procedure*: SUM OF[(original capitalized cost for vintage X / total capitalized cost for all vintages under account Y) x (remaining life of vintage X)] = composite remaining life for account Y

[16] The CAD factor depends on a combination of the ASL, Iowa curve, and salvage rate associated with the relevant group property account.

[17] See the CAD figures documented under columns titled "Calculated Accumulated Depreciation" in Section 5, *Detailed Depreciation Calculations,* of the Petition.

[18] *Calculation procedure for allocating booked accumulated depreciation to a given vintage in proportion to CAD:* (Total booked accumulated depreciation for account Y) x (CAD for vintage X / Total CAD for account Y) = amount of booked accumulated depreciation allocated to vintage X.

[19] The Vintage Group approach was introduced in 2018 under Docket No. G004/D-18-369.

[20] See Department Reply Comments, filed November 13, 2018, at page 3 in Docket No. G004/D-18-369.

[21] See the annual depreciation accrual and original cost figures documented under columns titled "Annual Accrual" and "Original Cost," respectively, in Section 5 *Detailed Depreciation Calculations,* of the Petition.

depreciation parameters for account 366.0 – *Transmission Structures*, an account that has not yet been included in a 5-year depreciation study. The following sections provide additional details and the Department's analysis around Great Plains' proposals.

1. Proposed Depreciation Rates

While composite depreciation rates can provide a succinct and consolidated view of the rates proposed by Great Plains, the depreciation rates requested have been calculated by the Company at the individual account level. When computing actual annual depreciation expense for the 2019 year, Great Plains will apply approved rates at the individual account level and calculate depreciation expense on a monthly basis. Therefore, it is essential to consider the depreciation rates as they are presented in Petition Table 1[22], under the column titled "RATE." The following Table 1 provides a high-level summary of the composite depreciation rates proposed for 2019 and, for comparison purposes, the depreciation rates approved in the Company's 2018 annual depreciation study.

Table 1: Summary of Approved and Proposed Depreciation Rates for Great Plains

	Composite Depreciation Rate Percentage (%)		
Plant Group	*2018* ***Approved***	*2019* ***Proposed***	***Proposed*** *Percentage Increase (%)*
Transmission	1.24	2.08	68
Distribution	4.55	4.66	2
General	3.94	4.30	9
Total Plant	4.31	4.32	<1

Table 1 shows that Great Plains has proposed to increase the composite rate for each plant group (Transmission, Distribution, and General) as well as total plant between 2018 and 2019. These proposed increases resulted from a combination of the effects of 2018 capital asset additions, retirements, transfers, and adjustments as well as the outcomes of the statistical analyses document in Section 5, *Detailed Depreciation Calculations*, of the Petition. Compared to the Distribution and General plant groups, Great Plains has proposed to increase the composite depreciation rate for the Transmission group by a particularly large amount between 2018 and 2019. The Department attributes this composite rate increase primarily to the relatively large amount of capital additions reported for 2018 under account 367.0 –

[22] Petition at page 4-2.

Transmission Mains[23] and the addition of a new account, 366.0 – *Transmission Structures,*[24] to the plant group.

The Company's annual depreciation expense estimate for 2019 is based on the plant-in-service accounting ledger values as of December 31, 2018. When applied to the December 31, 2018 plant-in-service ledger values, the newly proposed depreciation rates would result in a theoretical annual depreciation expense of $2,639,460.[25] The Department emphasizes that this 2019 annual depreciation expense figure is a *theoretical estimate*, and the amount does *not* reflect the actual depreciation expense that Great Plains will book for 2019. Because approved depreciation expense is calculated monthly and the Company will likely book some combination of capital asset additions, retirements, transfers, and adjustments, the 2019 actual annual depreciation expense will differ from the theoretical estimate. For example, Great Plains booked an actual depreciation expense provision of $2,540,871[26] for the 2018 year; as the Department would expect, this figure varies from both the 2018 theoretical estimate of $2,273,242[27] and the 2018 "Annual Accrual" amount of $2,502,639 shown on page 1-1 of the Petition.[28]

The following calculation approximates the potential impact of Great Plains' current proposals on the Company's total annual depreciation expense:

Theoretical Estimate of 2019 Annual Depreciation Expense	$2,639,460
Actual Booked 2018 Annual Depreciation Expense	$2,540,871
Increase/(Decrease)	$98,589

It is probable that the Company will book an annual depreciation expense for 2019 that is larger than the estimate documented above, because the approved depreciation rates will likely be applied to plant-in-service balances that are higher than the December 31, 2018 balances (i.e. capital additions, transfers, and upward adjustments will likely outweigh retirements). Given

[23] The original surviving cost reported for account 367.0 was $1,541,179 at December 31, 2017 and $6,097,192 at December 31, 2018. See Table 1 in the November 5, 2018 depreciation study update filed by Great Plains in Docket No. G004/D-18-369 and Table 1 in the current Petition.
[24] The proposed depreciation rate for account 366.0, which is one of four accounts included under the Transmission Plant Group, is 3.60 percent. See Petition Table 1.
[25] See Petition exhibit titled *Summary of Original Cost, Currently Approved Accrual Percentages and Amounts, and Updated Accrual Percentage and Amounts* at page 1-1.
[26] See Petition Table 3.
[27] See exhibit titled *Summary of Original Cost, Currently Approved Accrual Percentages and Amounts, and Updated Accrual Percentage and Amounts* at page 1-1 of the November 5, 2018 depreciation study update filed by Great Plains in Docket No. G004/D-18-369.
[28] See Petition exhibit titled *Summary of Original Cost, Currently Approved Accrual Percentages and Amounts, and Updated Accrual Percentage and Amounts* at page 1-1.

this expected variability in the annual depreciation expense, the potential increase amount should not be considered a certainty.

In addition to examining the proposed depreciation rates, the Department verified in its review that Great Plains has not requested modifications to the previously established average service lives, salvage rates, or survivor (Iowa) curves assigned to the Company's group property accounts. Because the Petition is an annual depreciation update, rather than a 5-year comprehensive depreciation study, the Department concludes that it is appropriate for these depreciation parameters to remain unchanged.

The Department notes that, because depreciation expense is established in a general rate case, Great Plains' ratepayers will pay the currently established rates throughout 2019, regardless of the Company's booked 2019 depreciation expense amount. That is, even if Great Plains' 2019 depreciation expense is increased by the proposals in the current Petition, ratepayers will not pay correspondingly increased rates during 2019.

Based on its review, the Department recommends that the Commission approve Great Plains' proposed depreciation rates, as outlined in Table 1 of the Petition, pending the submission of additional information discussed later in these Comments.

2. Proposed Depreciation Parameters for Account 366.0 – Transmission Structures

In its 2018 plant-in-service activity, the Company reported an initial capitalization of $16,683 under account 366.0 – *Transmission Structures*.[29] Due to the similar purpose, function, and nature of the assets booked under accounts 366.0 – *Transmission Structures* and 375.0 – *Distribution System Measuring & Regulating Station Structures*, the Company has requested approval to apply the same salvage rate (-5 percent) and average service life (85 years) currently approved for account 375.0 to account 366.0. Great Plains has also proposed to assign the 85-S1 Iowa curve to account 366.0.

In response to the Department's Information Request number 4, Great Plains explained that, because account 366.0 does not have a retirement history with the Company, depreciation study analyses cannot be effectively applied to this account. Instead, the Company and Concentric Advisors relied on their collective knowledge and professional judgement to estimate the most appropriate deprecation parameters for the account in question. Great Plains also explained that it does not anticipate further cost capitalization under account 366.0.[30]

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[29] See Petition Attachment A at page 2-2.
[30] See Department Attachment 1.

Given Great Plains' explanation of its proposed depreciation parameters for account 366.0 – *Transmission Structures* and the relatively small corresponding amounts of actual and anticipated cost capitalization, the Department recommends that the Commission approve the depreciation parameters for account 366.0, as outlined in Table 1 of the Petition.

E. GREAT PLAINS' 2018 DEPRECIATION CALCULATIONS AND THE CORRESPONDING CAPITAL ASSET ADDITIONS, RETIREMENTS, TRANSFERS, AND ADJUSTMENTS

Petition Tables 2 and 3 present a summary of Great Plains' 2018 capital asset additions, retirements, transfers, and adjustments as well as the Company's 2018 schedule of accumulated depreciation, respectively. The following sections provide additional context and highlight select information around these 2018 transactions.

1. Plant Balance and Depreciation Provisions Over Time

Table 2 below provides a summary of the Company's capitalized plant-in-service costs and depreciation provisions between 2012 and 2018. The figures documented in Table 2 are taken from Great Plains' previous depreciation studies and are associated with the actual plant-in-service-activity reported by the Company in the relevant year.

Table 2: Great Plains' Plant-In-Service and Depreciation Provision Summary 2012 – 2018

Year	*Plant Balance ($)*	*Increase in Plant Balance ($)*	*Annual Depreciation Expense Booked ($)*	*Approved Composite Depreciation Accrual Rate*	*Depreciation Reserve Balance[31] ($)*	*Increase in Depreciation Reserve Balance ($)*	*Depreciation Reserve Ratio*
2018	64,019,822	8,403,694	2,540,871	4.31%	30,488,579	63,186	47.62%
2017	55,616,128	1,231,739	2,245,003	4.31%	30,425,393	1,273,926	54.71%
2016	54,384,389	6,029,130	2,073,206	3.81%	29,151,467	2,196,537	53.60%
2015	48,355,259	6,894,986	1,828,985	3.78%	26,954,930	993,921	55.74%
2014	41,460,273	2,984,892	1,515,365	3.65%	25,961,009	942,482	62.62%
2013	38,475,381	2,939,941	1,404,487	3.65%	25,018,527	1,134,601	65.02%
2012	35,535,440	N/A	1,491,215	4.20%	23,883,926	N/A	67.21%

[31] For better comparability among all years documented in Table 2, the depreciation reserve balances for 2018 and 2017 exclude the Risk Work in Progress (RWIP) reserve amounts.

Great Plains' composite depreciation accrual rate remained the same between 2017 and 2018 at 4.31 percent. The data documented in Table 2 show that, over time, the Company's reserve ratio has generally trended downward; in addition, the reserve ratio decreased relatively significantly between 2017 and 2018 (7.09 percentage points). These changes in the reserve ratio are consistent with the Company's continued investment in its system and the particularly large investment amounts reported for Great Plains' 2018 plant-in-service activity.

2. Depreciation Expense Provision Calculations for 2018

As part of its review, the Department conducted a high-level analysis of the 2018 depreciation expense provisions reported by Great Plains in Table 3 of the Petition[32] to determine whether these provisions align with the corresponding plant-in-service activity and asset remaining lives. Based on the results of this analysis, the Department asked in its Information Request number 11 that the Company provide the actual 2018 depreciation expense calculations for the following accounts (as labeled in Table 3 of the Petition):

- 367-G-*Mains*
- 376-G-*Mains*
- 378-G-*Measure/Regulation Distribution*
- 380-G-*Services*
- 381-G-*Meters*
- 391-G-*Comp Equip-Server & Workstation*
- 391-G-*Office Furn & Equipment*
- 392-G-*Transportation Equipment*
- 396-G-*Power Operated Equipment*

Rather than providing the actual calculations, Great Plains replied that "The depreciation provision for each of the accounts listed is calculated as the prior month's ending plant balance times the depreciation rate for that account."[33] From the information contained in the Petition, the Department cannot determine the group property accounts' monthly ending balances for each of the twelve months during the 2018 year. Therefore, the Department requests that the Company provide in its Reply Comments the actual depreciation expense provision calculations for the accounts bulleted above. The calculations provided should include the actual numbers used to compute the 2018 depreciation provisions.

[32] See Petition at pages 5-33 – 5-36.
[33] See Department Attachment 5.

3. *Adjustments in 2018 to Costs Capitalized in Prior Years*

The Department observed through its review that, for certain accounts, the 2018 capital addition amounts recorded in Petition Table 2 did not match the 2018 original cost of capitalization documented in Petition Section 5, *Detailed Depreciation Calculations*. In response to the Department's Information Request number 7, Great Plains explained that these discrepancies were due to prior year errors that the Company identified and corrected in 2018.[34] The Department notes that the variances observed between the 2018 capital additions and original capitalized costs were relatively minor amounts, totaling approximately $161,000. If known, the Department invites Great Plains to include in its Reply Comments the cause (i.e. data entry error in the Company's accounting system, miscalculations of capitalized costs, etc.) of the relevant errors identified and corrected in 2018.

4. *Great Plains' Building Retirements and Information Schedules*

In its Petition Attachment B, Great Plains included an analysis of the asset retirements under account 390.0 – *General Structures and Improvements*. The Company's retirement analysis detailed the retirement and replacement of the Marshall Warehouse ($101,934 retired) and a component of the Marshall Office ($389 retired). The Department appreciates Great Plains' documentation of these building-related retirements in the current Petition and recommends that the Commission require the Company to continue reporting account 390.0 retirements in the same manner in future depreciation filings.

In addition, the Company has begun compiling a schedule of the buildings used for regulated utility operations, including the applicable cost amounts, individual or allocated depreciation reserve amounts, depreciation rate and method applied to the asset, placed-in-service dates, address/location, operational purpose, and the account in which the listed building asset is booked. The Department previously requested this information in Docket No. G004/D-18-369, but the Company was not required at that time to provide the building schedule data. In the current docket, we followed up with Great Plains through Department Information Request number 10 to ask whether the Company would be able to provide any of the previously requested building details. Great Plains provided the building information it had compiled as of the time of the Department's request; the Department appreciates the Company's efforts to document these details and provide clarity around the assets accounted for under 390.0 - *General Structures and Improvements*.[35]

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[34] See Department Attachment 3.
[35] See Department Attachment 4.

F. UPDATE ON PVC REPLACEMENT PROGRAM

As required, Great Plains provided an update around its PVC replacement program in the current Petition.[36] The Company reported that, of its intended replacement projects, approximately 45 percent of total mains and 55 percent of total services have been replaced as of the end of the 2018 calendar year.[37] During 2018, Great Plains documented replacing 50,706 feet of mains and 439 services. In its response to the Department's Information Request number 5, Great Plains estimated that 556,370 feet of mains and 5,165 services have yet to be replaced through the program. The Company also indicated that it anticipates completing the planned replacements within the PVC program term and will address any adjustment to the program timeline in the Company's next fully depreciation study.[38]

The Company's PVC replacement program is particularly relevant to the depreciation rates of the following distribution plant accounts[39]:

- 378.0 – *Measuring and Regulating Station Equipment General*
- 381.0 – *Meters & Meter Installations*
- 383.0 – *House Regulators*

As explained in the Company's prior 5-year depreciation study,[40] in 2011[41] Great Plains initiated a 15-year PVC Replacement program, part of which involves visiting customer sites to replace meter bars, house regulators, and older meters that cannot be refurbished. Therefore, the depreciation rate developed for these accounts reflects the planned PVC Replacement program's impact on the existing asset retirement. The current Petition proposes to continue using the same depreciation rates initially approved by the Commission in Great Plains' most recent 5-year depreciation study;[42] this proposal is also consistent with the depreciation rates approved for the relevant accounts in the Company's 2018 annual depreciation study.[43]

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[36] See Petition Section 3.2 at page 3-2.
[37] Great Plains previously reported approaching 42 percent completion of its PVC replacement program, but did not provide a breakdown by mains and services as it has done in the current Petition. See Great Plains' Reply Comments, filed October 4, 2018, at page 9 in Docket No. G004/D-18-369.
[38] See Department Attachment 2.
[39] This is not an exhaustive list of accounts that may be affected by the PVC replacement program. Rather, the prospective depreciation rate calculations for these accounts may be especially sensitive to new investments made through the program, because these accounts have smaller plant balances relative to other impacted accounts, such as 376.0 and 380.0.
[40] See Department's October 2, 2017 Comments in Docket No. G004/D-17-450 at pages 4 and 5.
[41] See Direct Testimony of Patrick Darras in Docket No. G004/GR-15-879, Exhibit 10 at page 10.
[42] Docket No. G004/D-17-450.
[43] Docket No. G004/D-18-369.

Table 3 below shows the depreciation rates applied to these affected accounts (378.0, 381.0, and 383.0) between 2013 and 2018. The depreciation rates for these accounts are based on the PVC replacement program period or phase and its progression over time.[44] The Department notes that it is plausible for the depreciation rates to remain unchanged between years, as Great Plains has proposed in its current Petition.

Table 3: Depreciation Rates Approved for Great Plains' Accounts 378.0, 381.0, and 383.0

	Approved Depreciation Rate Percentage (%)		
Year	*Account 378.0*	*Account 381.0*	*Account 383.0*
2013	2.70	7.49	5.38
2014	5.11	8.05	6.14
2015	2.83	8.14	6.38
2016	2.83	8.14	6.38
2017	12.55	9.91	6.62
2018	12.55	9.91	6.62

The Department concludes that using the previously approved depreciation rates for these accounts for 2019 is reasonable. However, as this program progresses, the Department would expect the depreciation rates to be adjusted to reflect changes associated with the replacement of the relevant assets. The Department recommends that the Commission continue to require Great Plains to provide an update on the Company's PVC replacement program in its future depreciation studies.

III. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

Based on its review, the Department recommends that the Commission take the following actions:

- Approve Great Plains' proposed depreciation rates, as outlined in Table 1 of the Petition and with an effective date of January 1, 2019, pending the Company's submission of the following information:
    - Actual depreciation expense provision calculations for the accounts bulleted below – the calculations provided should include the actual numbers used to compute the 2018 depreciation provisions.
        - 367-G-*Mains*
        - 376-G-*Mains*
        - 378-G-*Measure/Regulation Distribution*

[44] Docket No. G004/D-17-450.

    - 380-G-*Services*
    - 381-G-*Meters*
    - 391-G-*Comp Equip-Server & Workstation*
    - 391-G-*Office Furn & Equipment*
    - 392-G-*Transportation Equipment*
    - 396-G-*Power Operated Equipment*

- Approve the depreciation parameters for account 366.0 – *Transmission Structures*, as outlined in Table 1 of the Petition.

- Require Great Plains to continue reporting retirements in account 390.0 – *General Structures & Improvements* in future depreciation filings as the Company has done in Attachment B of the current Petition.

- Continue to require Great Plains to provide an update on the Company's PVC replacement program in its future depreciation studies.

In addition, the Department invites Great Plains to include in its Reply Comments the cause of the capitalized cost errors identified and corrected in 2018, if known.

The Department emphasizes that the Commission's determination in depreciation proceedings are for accounting purposes only and are not a determination for purposes of rates.

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Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G004/D-19-376	☐Nonpublic ☒Public	
Requested From:	Great Plains Natural Gas Co.	Date of Request:	7/8/2019
Type of Inquiry:	Financial	Response Due:	7/18/2019

Requested by: Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

Request Number: **4**
Topic: Investment in account 366.0
Reference(s): Section 3.1, page 3-2 of initial filing

Request:

1. Please provide a detailed breakdown of the expenses included in the $16,683 capitalization recorded in account 366.0.

2. Please describe with specificity how and in what ways the actual assets capitalized under the Great Plains' accounts 375.0 and 366.0 are similar to one another.

3. Please provide specific justification as to why it is impractical or imprudent to apply depreciation study procedures to account 366.0 to determine an appropriate depreciation rate.

4. Please provide an estimate of the anticipated capital additions to be applied to this account prior to Great Plains' next 5-year depreciation study.

Response:

1. Concrete Pad - $953
   Regulator Station Structure - $15,730

2. Accounts 366.0 and 375.0 are both for Structures and Improvements: Account 366.0 is Transmission function and Account 375.0 is Distribution function. Both include any structures used to protect various transmission or distribution assets. These structures that are built to protect the underlying assets are the same.

3. Concentric did follow accepted depreciation study principles in the technical update calculations for Account 366.0. In circumstances where an account has no retirement history, accepted

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To be completed by responder

Response Date: July 18, 2019
Response by: Travis Jacobson, Regulatory Affairs Manager
Email Address: travis.jacobson@mdu.com
Phone Number: 701.222.7855

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G004/D-19-376	☐Nonpublic ☒Public	
Requested From:	Great Plains Natural Gas Co.	Date of Request:	7/8/2019
Type of Inquiry:	Financial	Response Due:	7/18/2019

Requested by: Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

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depreciation practice is to rely on the professional judgement of the depreciation analyst. Professional judgement includes the background and experience of the depreciation professional, the views and comments of the company internal subject matter operational staff, and information from related accounts.

In this specific circumstance, an amount of $16,683 recorded in account 366.0 - Transmission Structures, related to a 2018 addition of a building use to house a transmission line regulator station, because Great Plains uses electronic remote monitoring devices that need protection. This represented the first time this account was used, and as such, there is no retirement history to analyze within the account. Great Plains operational staff indicated that the structure type used is the exact same as those recorded under account 375.0 – Distr. Meas & Reg Station Structures. In these circumstances generally accepted depreciation practices dictate that it is appropriate to use the same life parameters for the similar used in other accounts to develop the deprecation rate.

4. No capital additions to Account 366 are expected.

To be completed by responder

Response Date: July 18, 2019
Response by: Travis Jacobson, Regulatory Affairs Manager
Email Address: travis.jacobson@mdu.com
Phone Number: 701.222.7855

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G004/D-19-376	☐Nonpublic ☒Public	
Requested From:	Great Plains Natural Gas Co.	Date of Request:	7/8/2019
Type of Inquiry:	Financial	Response Due:	7/18/2019

Requested by: Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

Request Number: **5**
Topic: Update on PVC Program
Reference(s): Section 3.2, page 3-2 of initial filing

Request:

1. How was the new remaining life of 32.2 years for account 378 determined/calculated?

2. If possible, please provide (1) the number of feet of mains that have yet to be replaced through the PVC Program and (2) the number of services that have yet to be replaced through the PVC Program.

3. At this point in time, does Great Plains anticipate being able to complete the replacements planned within the PVC Program term, and, if not, why?

Response:

1. Concentric confirms the depreciation rate for Account 378.0 (Meas & Reg Station Equip – General) is fixed and applied at 12.55% based upon anticipated district regulator change out and eliminations. Therefore, the remaining life is not applicable.

   Concentric notes that the remaining life for account 376.0 (Mains) is 32.2 as noted in this request. The remaining life is calculated by taking the Net Book Value and dividing it by the Annual Accrual. The detailed calculations for account 376.0 are referenced on pages 5-10 to 5-12 of the initial filing.

2. <u>Mains</u> – Estimate of 556,370 feet remaining to be replaced
   <u>Services</u> – Approximately 5,165 replacements

To be completed by responder

Response Date: July 18, 2019
Response by: Travis Jacobson, Regulatory Affairs Manager
Email Address: travis.jacobson@mdu.com
Phone Number: 701.222.7855

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G004/D-19-376	☐Nonpublic ☒Public	
Requested From:	Great Plains Natural Gas Co.	Date of Request:	7/8/2019
Type of Inquiry:	Financial	Response Due:	7/18/2019

Requested by: Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

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3. At this point, Great Plains anticipates completing the planned replacements within the PVC Program Term. At the next full depreciation study, the Company will address if there is any adjustment to the timeline for reasons such as: work to be completed in denser population areas, larger metropolitan site conditions, and weather conditions.

To be completed by responder

Response Date: July 18, 2019
Response by: Travis Jacobson, Regulatory Affairs Manager
Email Address: travis.jacobson@mdu.com
Phone Number: 701.222.7855

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G004/D-19-376	☐Nonpublic ☒Public	
Requested From:	Great Plains Natural Gas Co.	Date of Request:	7/8/2019
Type of Inquiry:	Financial	Response Due:	7/18/2019

Requested by: Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

Request Number: **7**
Topic: 2018 capitalization reported in the detailed depreciation calculations versus the gas plant in-service activity
Reference(s): Section 5 Detailed Depreciation Calculations and Section 5.1, Table 2 of initial filing

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Request:

1. For certain accounts with capital additions in 2018, there is a difference between the dollar amounts reported under the 2018 "Original Cost" in Section 5 *Detailed Depreciation Calculations* and the "Sum of additions" documented in Table 2 of Section 5.1.

   For example, account 376.0 has an "Original Cost" investment of $1,660,351.71 recorded for 2018 and a "Sum of additions" of $1,589,215.57 recorded in Table 2 of Section 5.1. However, other accounts, such as 366.0, 367.0, 390.0, 394.0, 396.1, and 397.0 have exactly matching amounts recorded under the 2018 "Original Cost" investment and the "Sum of additions."

   Please explain the difference between the dollar amounts reported under the 2018 "Original Cost" investment and the "Sum of additions" for accounts 376.0, 379.0, 380.0, 391.1, 369.0, 392.2, 391.3, and 396.2.**

**Account 391.3 does not have an "Original Cost" investment recorded for the year 2018. The 2018 "Sum of additions" recorded under this account is equal to $3,179.47, which is the amount of the "Original Cost" investment recorded in 2017 in account 391.

Response:

The difference between the dollar amounts reported under the 2018 "Original Cost" investment and the "Sum of additions" for accounts 376.0, 379.0, 380.0, 391.1, 369.0, 392.2, 391.3, and

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To be completed by responder

Response Date: July 18, 2019
Response by: Travis Jacobson, Regulatory Affairs Manager
Email Address: travis.jacobson@mdu.com
Phone Number: 701.222.7855

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G004/D-19-376	☐Nonpublic ☒Public	
Requested From:	Great Plains Natural Gas Co.	Date of Request:	7/8/2019
Type of Inquiry:	Financial	Response Due:	7/18/2019

Requested by: Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

396.2 is the result of 2018 addition transactions with differing installation (or vintage) year information in each account.

While it is normal for addition transactions to have the same transaction and vintage year, it is also common over the course of a deprecation study, in between studies, or in this case, a technical update, that companies will scrutinize their accounting records to ensure the vintage information is correct.

In the data received for this update, GPNG's addition transactions data for 2018 included vintage information as far back as 2015. Specifically, there are seven negative additions with a 2017 vintage that are included in the 2018 balances of the accounts referenced above, used to calculate the depreciation rates in the GPNG technical update. These are all 2018 transactions but are not considered 2018 installation. These transactions are highlighted in the electronic Excel file Response No. 7.1 Attachment A.

For the accounts that have exactly matching amounts recorded under the 2018 "Original Cost" investment and the "Sum of additions", there is only 2018 vintage information, and as such the amounts for 2018 align.

To be completed by responder

Response Date: July 18, 2019
Response by: Travis Jacobson, Regulatory Affairs Manager
Email Address: travis.jacobson@mdu.com
Phone Number: 701.222.7855

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G004/D-19-376	☐Nonpublic ☒Public
Requested From:	Great Plains Natural Gas Co.	Date of Request: 7/8/2019
Type of Inquiry:	Financial	Response Due: 7/18/2019

Requested by: Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

Request Number: **10**
Topic: Buildings
Reference(s): No specific reference

Request:

1. Has Great Plains made progress towards compiling a schedule that includes all buildings used for regulated utility operations, their cost amounts, depreciation amounts, depreciation method and rate, placed in-service dates, address/location, operational purpose, and the account under which the building is booked (the Department is aware that this information is ***not*** required for the current depreciation filing)? If available/possible, please provide the building schedule information that Great Plains has compiled thus far.

Response:

Please see the electronic Excel file Response No. 10.1 Attachment A for the information that has been compiled to date.

To be completed by responder

Response Date: July 18, 2019
Response by: Travis Jacobson, Regulatory Affairs Manager
Email Address: travis.jacobson@mdu.com
Phone Number: 701.222.7855

Location Name	Address	City	In-Service Date	Purpose	Account/FERC	Cost	Depreciation Rate	Depreciation as of May 2019 (Asset-10303)	Depreciation Method	Asset Location
Region Office	705 West Fir Ave	Fergus Falls	2008	Office	390	$ 938,520.61	1.68%	$ 348,689.53	Straight Line	101500
Office/Shop/Warehouse (east side)	649 West Fir Ave	Fergus Falls	1989-1990-1991	Office/Shop/Warehouse	390	$ 211,281.45	1.68%	$ 78,599.18	Straight Line	
Welding Shop (west side) / former peak shaving plant bldg.	707 West Fir Ave	Fergus Falls	1967	Welding Shop	390	$ 107,154.47	1.68%	$ 39,391.11	Straight Line	
Office-this is rented, not owned	1321 Hwy 75 N	Breckenridge		Rented Office	390	$ -	1.68%	$ -	Straight Line	
Office/Shop/Warehouse	1023 N Main St	Crookston	Pre-1985? & 2007	Office/Shop/Warehouse	390	$ 209,218.05	1.68%	$ 70,435.39	Straight Line	118000
Office	811 North Bruce St	Marshall	2006	Office	390	$ 250,587.00	1.68%	$ 66,815.38	Straight Line	112000
Shop/Warehouse/Welding Shop (former peak shaving plant bldg)	811 North Bruce St	Marshall	original & 2017 addition	Shop/Warehouse/Welding Shop	390	$ 486,096.05	1.68%	$ 130,864.39	Straight Line	
Office/Shop/Warehouse	4489 186th St S	Montevideo	2000/2010	Office/Shop/Warehouse	390	$ 141,384.37	1.68%	$ 57,902.69	Straight Line	113000
Office/Shop/Warehouse	899 W Bridge St	Redwood Falls	2012	Office/Shop/Warehouse	390	$ 162,684.76	1.68%	$ 37,086.62	Straight Line	114000
Additional Smaller Buildings:										
SCADA Bldg (RTU)	1933 West Fir Ave	Fergus Fall	2018	Houses SCADA Equipment	366	$ 16,588.34	2.51%	$ 235.07	Straight Line	101D12
Town Border Station	Intersection of MN Hwy 75 N / MN Hwy 210	Breckenridge	2011	Houses TBS Equipment	369	$ 35,729.79	2.84%	$ 5,415.61	Straight Line	103D04
						$2,559,244.89		**$ 835,434.97**		

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G004/D-19-376	☐Nonpublic ☒Public
Requested From:	Great Plains Natural Gas Co.	Date of Request: 7/8/2019
Type of Inquiry:	Financial	Response Due: 7/18/2019

Requested by: Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

Request Number: **11**
Topic: Depreciation provision for various accounts
Reference(s): "Depreciation Provision" column in Table 3 on page 5-36 of initial filing

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Request:

1. For each of the following accounts, please provide the actual calculations used to determine the "Depreciation Provision" amount shown in Table 3 on page 5-36:
   - 367-G-Mains
   - 376-G-Mains
   - 378-G-Measure/Regulation Distribution
   - 380-G-Services
   - 381-G-Meters
   - 391-G-Comp Equip-Server & Workstation
   - 391-G-Office Furn & Equipment
   - 392-G-Transportation Equipment
   - 396-G-Power Operated Equipment

2. For each of the accounts listed in the bulleted points above, please provide any relevant explanation around the circumstances or factors that may have caused the corresponding "Depreciation Provision" figures to be notably higher or lower from expected/estimated amounts.

Response:

1. The depreciation provision for each of the accounts listed is calculated as the prior month's ending plant balance times the depreciation rate for that account.

2. The depreciation provision amounts were not notably higher or lower than the company's expectations and are correlated to the change in plant balances for each account.

To be completed by responder

Response Date: July 18, 2019
Response by: Travis Jacobson, Regulatory Affairs Manager
Email Address: travis.jacobson@mdu.com
Phone Number: 701.222.7855

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. G004/D-19-376

Dated this **31st** day of **July 2019**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Tamie A.	Aberle	tamie.aberle@mdu.com	Great Plains Natural Gas Co.	400 North Fourth Street Bismarck, ND 585014092	Electronic Service	No	OFF_SL_19-376_D-19-376
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_19-376_D-19-376
Ian	Dobson	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_19-376_D-19-376
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_19-376_D-19-376
Brian	Meloy	brian.meloy@stinson.com	STINSON LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-376_D-19-376
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_19-376_D-19-376