MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	December 23, 2020		Agenda Item 3 *
Company	Greater Minnesota Gas, Inc.		
Docket No.	**G-002/D-20-612**		
	In the Matter of Greater Minnesota Gas, Inc.'s Petition for Approval of its 2020 Depreciation Certification		
Issues	Should the Commission approve Greater Minnesota Gas, Inc.'s 2020 depreciation certification?		
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✓ **Relevant Documents**	**Date**
Greater Minnesota Gas – Initial Filing	July 22, 2020
Department of Commerce – Comments	September 9, 2020
Greater Minnesota Gas – Reply Comments	September 17, 2020
Department of Commerce – Response	October 15, 2020

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I. Statement of the Issue

Should the Commission approve Greater Minnesota Gas, Inc.'s (GMG) Petition for Approval of its 2020 depreciation certification?

II. Background

On July 22, 2020, Greater Minnesota Gas, Inc. (GMG) filed for Approval of a Depreciation Certificate pursuant to Minn. Stat. 216B.11 and Minn. Rules, Parts 7825.0500 to 7825.0900. This submission is also required by the Minnesota Public Utilities Commission's (the Commission's) November 25, 2015 Order in Docket No. G-022/D-15-671 which required GMG's next depreciation study to be filed by August 1, 2020.

GMG requested an effective date of January 1, 2021 for the new depreciation rates.

On September 9, 2020, the Minnesota Department of Commerce (Department) submitted comments.

On September 17, 2020 GMG filed additional information to supplement its initial filing.

On October 15, 2020, the Department reviewed GMG's Petition and concluded that, with the September 17, 2020 Supplement, GMG provided the information needed to meet the filing requirements.

III. Parties' Comments

A. Greater Minnesota Gas (GMG)

On July 22, 2020, GMG filed this Petition seeking the Commission's approval of GMG's 2020 depreciation study and certificate pursuant to Minnesota Rules Parts 7825.0500 to 7825.0900.

This Petition is GMG's fourth depreciation study in its twenty-five-year history. Its first Petition for Approval of Depreciation Certification was filed contemporaneously with its initial rate case on April 30, 2004. GMG filed subsequent depreciation studies in 2010 and 2015. In the prior depreciation studies, GMG stated that it relied on industry standard data as the basis to determine appropriate depreciation rates due to the infancy of GMG's system. The Company asserted that this remains the correct course of action with regard to most depreciation accounts. However, GMG noted that it relied on its own internal experience regarding its proposal for vehicles (FERC account 392).

Greater Minnesota Gas stated that its depreciation methodology uses a straight-line method with an average service life (ASL) – Broad Group procedure and remaining life technique.

GMG said that, because it has not experienced significant replacement or retirement due to aging, it is proposing no changes to established depreciation rates for its assets except for its new proposal for asset lives and salvage rates for its vehicle fleet.

In addition, GMG provided plant-in-service detail in the petition, demonstrating that the majority of its plant is still quite young, having grown by 66% over the five-year period from 2014 to 2019; from $30,641,263 to $50,909,570.

In its conclusion, GMG stated that it "believes that the proposed depreciation rates reflected herein should be prospectively adopted by the Commission; therefore, GMG respectfully requests that the Commission certify its proposed depreciation methodology and rates".

B. Department of Commerce

1. Compliance with Depreciation Statutes, Rules and Filing Requirements

To determine the depreciable (useful) lives of their capital assets, utilities may choose to apply an average service life (ASL) or a remaining life technique. The Department observed that:

> When utilities opt to use the ASL technique to depreciate property, the life and salvage factors as well as the depreciation rates remain unchanged between studies. If companies use the remaining life technique, the underlying life and salvage factors may not change, but the depreciation rates must be updated annually to reflect the passage of time and the impact of plant activity on remaining lives. Since the Company uses the ASL technique,[1] it does not need to file annual depreciation updates with the Commission.

The Department concluded that based on its review, GMG complied with the applicable statutes, rules and filing requirements.

2. Compliance with prior Commission Orders

GMG confirmed that it records gains and losses that result from asset sales in the depreciation reserve, rather than flowing such gains and losses through the income statement.[2] Additionally, and pursuant to the Commission's Order for GMG's 2015 depreciation study,[3]

> … the Company filed the instant Petition on July 22, 2020, prior to August 1, 2020, and accrued a supplemental $584,624 to GMG's depreciation reserve over the period of 2015 – 2019.[4]

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1 Department Comments, September 9, 2020, page 2, footnote 3: "The Company included language in its Petition that indicated it uses a remaining life technique, but that is not an accurate description of their depreciation methodology. The Department and GMG agree that the Company's future petition language will be revised to reflect the correct technique."

2 Ibid, Department Attachment 7.

3 Commission's November 25, 2015 Order in Docket No. G022/D-15-671.

4 Ibid, page 2, Department footnote 8: "Catchup Salvage of $436,422 (Petition, page 34) + Catchup Depreciation of $148,235 (Petition, page 46) = $584,657. Minor rounding errors account for the slight difference between the $584,624 supplemental reserve accrual ordered by the Commission and the $584,657 recorded by GMG. Due to GMG's accidental under-funding of the Company's depreciation

The Department concluded that GMG has complied with prior Commission orders.

3. GMG's Depreciation Methodology

The Department stated that GMG depreciates its capital assets on a Straight Line basis over the assumed average service life assigned to the property in a given FERC account. Additionally, that the Company accrues salvage for its assets at salvage rates approved by the Commission.

4. GMG's Depreciation Proposals

Except for Account 392 – Transportation Equipment, GMG proposed continued use of the same average service lives and salvage rates approved by the Commission in the Company's last depreciation study (Docket No. G-022/D-15-671). The Department went on to note that, in 2019, GMG recorded its initial capitalization in Account 390 – Structures & Improvements, causing the Company to institute its depreciation parameters for these assets.

Table 1, below, summarizes GMG's depreciation proposals and its currently approved depreciation parameters.

Table 1: Greater Minnesota Gas's Proposed and Currently Approved Depreciation Parameters[5]

FERC Account	*Proposed ASL (yrs.)*	*Approved ASL (yrs.)*	*Proposed Salvage Rate*	*Approved Salvage Rate*
376 – Mains	50	50	-27%	-27%
378 – Measuring & Regulating Station Equipment	42	42	-21%	-21%
380 – Services	50	50	-40%	-40%
381 – Meters	30	30	0%	0%
382 – Meter Installations	50	50	-35%	-35%
383 – House Regulators	42	42	-35%	-35%
387 – Other Equipment	8	8	0%	0%
391 – Office Furniture & Equipment	6	6	0%	0%
392 – Transportation Equipment	4	3	0%	30%
390.1 – Structures	40	N/A	0%	N/A
390.2 – Improvements	15	N/A	0%	N/A
397 – Communication Equipment	10	10	0%	0%

Staff note: highlighted area discussed below in Section IV. Resolved Issues.

reserve, an issue identified in GMG's 2015 depreciation study, the Commission directed GMG to correct this error by accruing a supplemental $584,624 to the Company's depreciation reserve over the period of 2015 – 2019".

[5] Ibid, page 3, Department footnote 9: "Data in Table 1 retrieved from Petition, page 63".

The Department indicated that GMG considered industry information specific to other Minnesota regulated utilities including the most recent five-year depreciation studies for Xcel Energy and Minnesota Energy Resources.[6]

The Department said, given GMG's limited experience with its capital asset retirements, it concluded that it is reasonable for the Company to continue to rely on industry experience in developing its depreciation parameters. Therefore, based on its review, the Department recommended that the Commission approve GMG's depreciation proposals, except for the salvage value for 392-Transportation Equipment and the Department's recommendations for 390 – Structures and Improvements (discussed below in Section IV. of these briefing papers).

5. GMG's Plant Activity and Depreciation Expense Calculations

Table 2, below, summarizes GMG's plant-in-service and depreciation reserve balances between 2014 and 2019.

Table 2: Greater Minnesota Gas's Plant-in-Service and Depreciation Reserve 2014 – 2019

Year	*Year-end Plant-in-Service Balance (A)*	*Year-end Reserve Balance (B)*	*Reserve Ration (B/A)*
2014	$30,657,151	$3,675,748	12%
2015	$36,558,100	$4,638,771	13%
2016	$40,503,789	$5,880,132	15%
2017	$42,887,972	$6,845,186	16%
2018	$46,723,068	$8,174,351	17%
2019	$50,909,570	$9,508,125	19%

The Department noted that GMG's depreciation reserve ratio trended upwards in 1-2 percent increments ending at a total of 19% in 2019. DOC pointed out that the growth in the Company's reserves is generally indicative of a relatively new utility system.

The Department concluded that, after a review of the depreciation expense calculations (pages 45-67 of GMG's petition), "the booked depreciation in each account appeared to be reasonably consistent with the relevant approved depreciation parameters".[7]

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[6] Ibid, Department Attachment 2.

[7] Ibid, page 7, Department footnote 27: "The Department noted a few irregularities in the depreciation accruals for Accounts 387 and 391 as well as some inconsistencies between the documented and approved ASLs for Accounts 383, 391, and 392. In response to Department information requests, GMG explained that these issues were the result of accidental table formatting and typographical errors, but that the actual depreciation calculations and accounting records for the relevant accounts are accurate. See Department Attachment 5 and 6 for details.

6. Effective Date and Subsequent Filing Date

The Department noted that GMG asked for an effective date of January 1, 2021 for its proposals and said:

> The Department suggests that an effective date of January 1, 2020 may be more appropriate, given that 2020 marks the sixth year since the Commission's last approved effective date (January 1, 2015)[8] for GMG depreciation parameters. Therefore, consistent with the approach in GMG's prior depreciation filing in 2015, the Department recommends that the Commission approve an effective date of January 1, 2020 for GMG's depreciation parameters. In keeping with the five-year depreciation study cycle, the Department also recommends that the Commission require GMG to file its next depreciation by August 1, 2025.

7. Department's Initial Conclusion and Recommendations

The Department concluded that GMG's Petition complies with the applicable statutes, rules and Commission orders, and that, with the exception of the proposed 0 percent salvage rate for Account 392, the Company's depreciation proposals in the instant docket are reasonable. The Department recommends that the Commission take the following actions:

- With the exception of the 0 percent salvage rate requested for Account 392, approve GMG's depreciation proposals, as shown on page 63 of the Petition, with an effective date of January 1, 2020.

- Absent additional information specific to GMG's salvage percentage experience with Account 392 retired assets, the Department recommends that the Commission approve a positive salvage rate of 30 percent for Account 392, which would be consistent with the current Commission-approved salvage rate for this account. However, if GMG considers a 30 percent salvage rate to be too high, based on its experience with truck trade-in values, and the Company wishes to propose and provide support for a different positive salvage rate in its Reply Comments, the Department invited GMG to do so.

- Require GMG in its next depreciation study or general rate case, whichever comes first, to specifically discuss whether its expectations have changed for the Account 390 ASLs and explain why or why not. If the Company is not already intending to do so, require GMG to individually depreciate the Company's office building currently in Account 390 as well as any future buildings GMG places into service under Account 390 until the Company files its next depreciation study or general rate case, whichever comes first. If, at the time GMG files its next depreciation study or general rate case, the Company wishes to

[8] Docket No. G-022/D-15-671, Commission's Order, November 29, 2015.

reevaluate the application of individual and group depreciation methodologies for Account 390 assets, the Department will then review any requested depreciation methodology changes for GMG's Account 390.

- Require GMG to file its next depreciation study by August 1, 2025.

IV. Resolved Issues

A. Account 392 - Transportation Equipment

In its petition, GMG requested approval to extend its average service life (ASL) from 3 years to 4 years for its Account 392 – Transportation Equipment. GMG also requested approval to reduce this account's salvage value from 30 percent to 0 percent. The Company went on to explain that it made these request to reflect GMG's actual experience with the retirement life-cycle and salvage values of the vehicles in this account.

Specifically, GMG provided the following additional detail:

> GMG's vehicle fleet is predominately comprised of ¼ ton pickup trucks. GMG generally keeps a truck in its fleet service for approximately four to five years, after which time the truck is traded in with the value applied to the purchase of a replacement fleet vehicle. GMG does not have any use for indefinitely retaining old fleet vehicles. Hence, any remaining value of an older fleet vehicle is utilized to offset another fleet purchase in lieu of salvaging it; thus, there is no practical or theoretical basis for a salvage value.[9]

The Department concluded that it is reasonable to increase the ASL of this account, since the Company generally uses its trucks for 4-5 years. However, since GMG receives positive trade-in values, the Department does not believe a salvage value of 0 percent to be an appropriate rate.[10] The Department went on to note, that in response to an information request,[11] GMG's accounting records showed positive trade-in values in 2017, 2018, and 2019.

The Department said that, in the absence of additional specific salvage percentage experience, it recommended that the Commission approve a positive salvage rate of 30 percent. The Department also stated if GMG finds this rate too high, the Department invites the Company to provide support in its Reply Comments.

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[9] Petition, July 8, 2020, page 4.

[10] Department Comments, September 9, 2020, page 4.

[11] Ibid, Department Attachment 4.

In its Reply Comments, GMG supplied the information in Table 3 below to support its request.

Table 3: Data from GMG's actual transportation vehicle history from 2015 to date

Greater Minnesota Gas, Inc. Vehicle Trade-in/Disposal Recap					
Date Placed In Service	Model	Depreciable Basis (a)	Trade In	Trade % of Depreciable Basis	Date of Trade In
7/31/2015	Ford F150	$ 34,036	$ 7,700	22.6%	3/12/2020
2/29/2016	Ford F150	$ 38,785	$ 7,900	20.4%	3/10/2020
3/19/2014	Ford F250	$ 44,234	$ 4,000	9.0%	6/19/2019
7/22/2014	Ford Edge	$ 33,218	$ 7,500	22.6%	3/18/2019
1/31/2013	Ford F150	$ 32,528	$ 8,200	25.2%	11/15/2018
3/13/2014	Ford F150	$ 35,155	$ 7,500	21.3%	7/17/2018
2/28/2013	Ford F150	$ 30,517	$ 7,500	24.6%	12/18/2017
10/4/2011	Ford F150	$ 27,670	$ 8,000	28.9%	5/19/2017
7/7/2008	Toyota Highlander	$ 20,657	$ 700	3.4%	2/1/2016
4/12/2007	Dodge Ram 1500	$ 22,428	$ 500	2.2%	7/20/2015
		$ 319,228	$ 59,500	18.6%	

(a) The Depreciable Basis includes any deduction for a trade-in vehicle.

GMG said that this data shows that the average salvage rate for this account is 19%. As a result, GMG believes that the Commission should approve a rate of 20% as informed by the Company's history.

In its October 15, 2020 Response Comments, the Department said that, based on GMG's additional data, the Department recommends the Commission approve a positive salvage rate of 20 percent for Account 392.

B. Account 390 Buildings and Structures

In its petition, GMG reported a capitalization of $621,723 under Account 390 – Structures and Improvements.[12] In response to a Department information request,[13] the Company explained that the capitalization was for purchase and capital improvements for a corporate headquarters building in Faribault, Minnesota.

The Department said that according to GMG, it selected a 40-year life for Account 390.1 – Structures and a 15-year life for Account 390.2 – Improvements. GMG said that these determinations were based on Internal Revenue Service (IRS) and Generally Accepted Accounting Principles (GAAP) guidelines. The Company further said that it believes a salvage

[12] Petition, July 8,2020, page 13.

[13] Department Comments, September 9, 2020, Department Attachment 3.

value of 0 percent is appropriate for the 390 account, due to a high level of uncertainty regarding future costs and benefits of commercial building disposal.

The Department stated that it does not object to GMG's proposed parameters for Account 390 but did note that the average service lives are shorter than those typically used by Minnesota gas utilities.[14] So, the Department recommends that the Commission approve GMG's proposals for Account 390 and require the Company to discuss, in its next depreciation study or rate case, whether its expectations regarding Account 390 average service lives have changed and explain why or why not.

Regarding the depreciation methodology for Account 390, the Department stated:

> Since GMG's Account 390 contains a single office building, which the Company recently placed into service (in 2019), it should be relatively simple for GMG to depreciate this one building on an individual, rather than group, basis. The Department recommends that, if the Company is not already intending to do so, the Commission require GMG to individually depreciate the Company's office building currently in Account 390 as well as any future buildings GMG places into service under Account 390 until the Company files its next depreciation study or general rate case, whichever comes first. If, at the time GMG files its next depreciation study or general rate case, the Company wishes to reevaluate the application of individual and group depreciation methodologies for Account 390 assets, the Department will then review any requested depreciation methodology changes for GMG's Account 390.

V. Departments Final Conclusion and Recommendations

In its October 15, 2020 response comments, and based on its review, the Department concluded that GMG's Petition complies with the applicable statutes, rules and Commission orders, and that the Company's depreciation proposals are reasonable. The Department recommended the Commission take the following actions:

- Approve GMG's depreciation proposals, as shown on page 63 of the Petition and as amended on page 2 of the Company's September 17, 2020 Reply Comments, with an effective date of January 1, 2020 (note: the Department recommends the Commission approve a positive 20 percent salvage rate for the Company's Account 392).

- Require GMG in its next depreciation study or general rate case, whichever comes first, to specifically discuss whether its expectations have changed for the Account 390 ASLs and explain why or why not.

[14] Ibid, page 6, Department footnote 22: "For example: Great Plains Natural Gas Company assigns a 45-year ASL to Account 390 (most recently approved in Docket No. G004/D-19-376); Xcel Energy and Minnesota Energy Resources Corporation both assign a 55-year ASL to Account 390 (most recently approved in Docket Nos. E,G002/D-19-490 and G011/D-19-377, respectively)."

- Require GMG to individually depreciate the Company's office building currently in Account 390 as well as any future buildings GMG places into service under Account 390 until the Company files its next depreciation study or general rate case, whichever comes first. If, at the time GMG files its next depreciation study or general rate case, the Company wishes to reevaluate the application of individual and group depreciation methodologies for Account 390 assets, the Department will then review any requested depreciation methodology changes for GMG's Account 390.

- Require GMG to file its next depreciation study by August 1, 2025.

VI. Staff Comment

Staff concurs with the recommendations made by the Department of Commerce and appreciates Greater Minnesota Gas's consent and cooperation.

VII. Decision Alternatives

1. Approve GMG's depreciation proposals, as shown on page 63 of the Petition and as amended on page 2 of the Company's September 17, 2020 Reply Comments, with an effective date of January 1, 2020 (GMG proposes that a four-year ASL and twenty percent (20%) salvage rate be applied to Account 392). (*DOC, GMG*)

AND

2. Require GMG to individually depreciate the Company's office building currently in Account 390 as well as any future buildings GMG places into service under Account 390 until the Company files its next depreciation study or general rate case, whichever comes first. (*DOC, GMG*)

AND

3. Require GMG in its next depreciation study or general rate case, whichever comes first, to specifically discuss whether its expectations have changed for the Account 390 ASLs and explain why or why not. (*DOC, GMG*)

AND

4. Require GMG to file its next depreciation study by August 1, 2025. (DOC, GMG)