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April 7, 2014

VIA ELECTRONIC FILING

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of a Commission Inquiry into
Decommissioning Policies Related to Depreciation
Docket No, E,G-999/CI-13-626

Dear Dr. Haar:

Pursuant to the Minnesota Public Utilities Commission Notice of Comment Period dated March 6, 2014, Minnesota Power hereby electronically submits its Comments in the above-referenced Docket.

Please contact me at the number above should you have any questions related to this matter.

Yours truly,

Christopher D. Anderson

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c: Service List



**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of a Commission Inquiry into
Decommissioning Policies Related to
Depreciation

Docket No. E,G-999/CI-13-626
FILING

Minnesota Power files this information in response to the Commission Inquiry into Decommissioning Policies Related to Depreciation filed by the Minnesota Public Utilities Commission (“Commission”) dated March 6, 2014.

Information to be provided by Utility Companies:

- 1) Provide an explanation of your company’s plant decommissioning policies including the relationship of the policy to your company’s depreciation expense and the calculation of the salvage portion of the depreciation expense.**

Minnesota Power’s existing decommissioning probability percentages are used in the calculation of the estimated gross salvage rate and the estimated gross salvage rate is used in the calculation of the annual depreciation accrual.

The estimated gross salvage rate is calculated by first taking the gross estimated decommissioning costs multiplied by the estimated decommissioning probability, and second by taking this product divided by plant in service to get the estimated gross salvage rate.

The annual depreciation accrual is calculated by first taking the salvage rate multiplied by -1; second taking this product multiplied by the depreciable plant balance; third taking this product plus the depreciable plant balance;

fourth taking this product less the depreciation reserve; and fifth taking this product divided by the remaining life to get the annual depreciation accrual.

2) Provide a detailed explanation of how your company's decommissioning probabilities are determined.

Minnesota Power's existing decommissioning probability percentages were developed from internal decommissioning studies and analysis done over the years. Principles used to determine decommissioning probabilities are plant and unit specific based on a combination of equipment condition, regulatory environment, environmental obligations and customer needs considered in the resource planning process and other pertinent factors. Minnesota Power does not establish decommissioning probabilities solely based upon a schedule of remaining useful life.

The decommissioning probabilities for all the Laskin and Boswell Units were determined in Minnesota Power's 2004 Production Plant Depreciation Study. In February 2007 a decommissioning study was completed for Taconite Harbor and this study determined that the decommissioning probability for Taconite Harbor is 80%. In 2007 the decommissioning probability for Boswell Unit 3 was increased to 75%. The remaining life of Boswell Unit 3 was increased from 8 to 28 years as the result of significant additional investments in the Unit. The decommissioning probability also increased as the likelihood of decommissioning Boswell Unit 3 in 2034 is greater than the probability of decommissioning it in 2014.

3) Explain the relationship between the decommissioning probability and the established life for the plant.

The decommissioning probability is the likelihood of actually decommissioning the unit at the end of its remaining life.

Generally decommissioning probability increases along with a significant life extension as the longer Minnesota Power anticipates operating an asset, particularly a coal fired generating plant, the greater the likelihood exists that the asset will be decommissioned at the end of its currently estimated remaining life. A primary driver for why decommissioning is more likely to occur in (for example) 2035 versus 2020 is due to a greater likelihood of future emission controls and expected operating costs for large coal fired units.

4) Does your company use decommissioning probability in any other jurisdiction in which you operate?

Minnesota Power does not operate in any other jurisdiction.

5) Provide any documentation on depreciation practices that provides support for the use of decommissioning probabilities.

In Minnesota Power's 2010 Remaining Life Petition (Docket No. E-015/D-10-223) Minnesota Power requested to increase the decommissioning probability of Boswell Unit 4 to 75% as a result of extending the useful life. Minnesota Power believed the likelihood of decommissioning Boswell Unit 4 in 2035 was greater compared to the probability of decommissioning in 2028.

In its May 5, 2010 comments to the 2010 Remaining Life Petition, the Minnesota Department of Commerce, formerly Office of Energy Security (Department) did not agree with Minnesota Power's proposed change in the probability of decommissioning for Boswell Unit 4. The Department noted in its initial comments to this Docket that the probability that Minnesota Power will decommission Boswell Unit 4 in 2035 (the life proposed by Minnesota Power) compared to the probability of decommissioning in 2028 (current life) does not increase the probability of decommissioning as suggested by

Minnesota Power. The Department concluded in its initial comments that since Minnesota Power is requesting to extend the life of Boswell 4 by 7 years, it is not reasonable to conclude that the certainty or probability of decommissioning is more likely, and has increased to 75 percent resulting in an increase in costs of the negative net salvage rate.

In the Order for this Docket the Department expressed concern that increasing the probability of decommissioning Boswell Unit 4 from 50 percent to 75 percent at this time is too high for Boswell Unit 4, considering that Boswell Unit 4 is not scheduled to be decommissioned for 25 years (2010 to 2035). The Department also stated there is simply too much uncertainty at this time regarding the specifics about decommissioning of Boswell Unit 4 so far out into the future to make such an adjustment.

Accordingly, we believe that the Department has previously supported decommissioning probabilities and we believe the use of probabilities in decommissioning studies is still valid today.

Topic/s Open for Comment:

- 1) Minnesota Rule 7825.0800 prescribes the straight-line method for calculating depreciation. Is the practice of a utility periodically adjusting its decommissioning cost accruals based on the probability of decommissioning occurring at the end of projected life consistent with this rule?**

Minnesota Power's believes the practice of a utility periodically adjusting its decommissioning cost accruals based on the probability of decommissioning occurring at the end of projected life is consistent with this rule. At each point that the decommissioning probability is reassessed and changed, the resulting salvage rates are also updated.

Minnesota Power believes that its Commission-approved method of incorporating decommissioning costs into depreciation accruals follows the straight-line method as required under Minn. Rules 7825.0800. Minn. Rules 7825.0500, subp. 14 defines Straight-line Method as follows:

"Straight-line method" means the plan under which the original cost of an asset adjusted for net salvage is charged to operating expenses and/or to clearing accounts and credited to the accumulated provision for depreciation through equal annual charges over its probable service life.

The current method considers a probability of decommissioning in the calculation that is based upon a schedule that assumes an increase in probability as an asset nears the end of its service life. Under the current method, the depreciation accrual is level over the remaining service life of the asset until a future change in estimate is made, such as a change in estimated net salvage, the probable service life, or a change in the asset's installed cost from items such as an additional capital investment.

2) Is there a dichotomy between setting a proposed life for plant and then determining there is only some percentage (such as 50%) chance of the plant being retired at the end of that life?

If the current method of establishing decommissioning probabilities, where the probabilities are determined solely based upon the remaining useful life of the asset, it would appear so.

Both Minnesota Power and the Department have supported setting a proposed life for plant and then determining there is only some percentage (such as 50%) chance of the plant being retired at the end of that life. See below:

Generally decommissioning probability increases along with a significant life extension as the longer Minnesota Power anticipates operating an asset, particularly a coal fired generating plant, the greater the likelihood exists that the asset will be decommissioned at the end of its currently estimated remaining life.

In the Order for Minnesota Power's 2010 Remaining Life Petition (Docket No. E-015/D-10-223) the Department expressed concern that increasing the probability of decommissioning Boswell Unit 4 from 50 percent to 75 percent at this time is too high for Boswell Unit 4, considering it is not scheduled to be decommissioned for 25 years (2010 to 2035). The Department also stated there is simply too much uncertainty at this time regarding the specifics about decommissioning of Boswell Unit 4 so far out into the future to make such an adjustment.

3) Is it appropriate to adjust the amortization of decommissioning costs to reflect this uncertainty in remaining life calculations?

There is much uncertainty and variability related to decommissioning costs and timing of decommissioning. The amortization of decommissioning costs is adjusted when decommissioning costs change, so probability changes should also adjust the amortization of decommissioning costs.

If the determination of decommissioning probabilities were developed based upon criteria independent of the remaining useful life of the assets or with the remaining useful life of the asset as only one component of consideration there would be no contradiction between the useful life and the decommissioning probabilities.

4) If so, is the frequency or size of the adjustment relevant to the determination of whether the adjustments are appropriate?

Yes, and Minnesota Power feels the Commission should also address in this Generic Docket the frequency and adequacy with which companies should file and update decommissioning studies, including any correlation with integrated resource plans.

Decommissioning Study Frequency and Adequacy

Minnesota Power believes the frequency and adequacy of decommissioning studies should be considered by the Commission, because current regulatory practice and statute are not always consistent. Current statute requires decommissioning studies to be updated *at least* every five years. Current practice over the last few decades has been to only update decommissioning studies every five years. The regulatory environment in which the utilities operate has a great potential to change annually, potentially resulting in changes that have significant impacts on decommissioning assumptions and

resulting costs much more frequently than is current practice of updating the studies every five years.

Minnesota Power believes decommissioning studies should be addressed annually by the utility. Minnesota Power proposes that the utility should attest to the adequacy of the current study annually in the utilities remaining life petition. This attestation should address the underlying assumptions of the study including changes in cost assumptions, changes in applicable regulations that impact design and engineering assumptions, and any other assumptions that would materially change either the decommissioning probability of a facility, the projected decommissioning liability or asset that results, and the decommissioning expense or credit that is included in annual depreciation expense.

Coordination of Remaining Life Petitions with Integrated Resource Plans

Minnesota Power also believes that decommissioning studies used for Planning related filing purposes, such as Integrated Resource Plans or petitions for resource additions, should not be used to impact open annual remaining life depreciation petitions. These decommissioning studies used for planning purposes need to be consistent with the decommissioning studies used in the remaining life dockets. But, as the outcome of these dockets is dependent on Commission action, these planning studies should not be considered for integration into the annual depreciation dockets until after Commission action.

Additionally, when coordinating remaining lives from a remaining life petition to an Integrated Resource Plan (IRP), Minnesota Power believes coordination should be with the last approved IRP before the annual depreciation filing is actually filed. Again, Commission approval of the assumptions inherent in the IRP docket is necessary to affirm the proposed future actions of the utility. If a current open IRP were used for coordination

of useful life purposes, it could result in unpredictable consequences to the Company's annual depreciation expense and annual earnings because there is no tie to the approved IRP.

5) Are the reasons for using a probability of decommissioning still valid today?

Yes, as noted in the 2010 Boswell Unit 4 case above, Minnesota Power's proposal was based upon other factors than just remaining useful life. The Company considered the probability that another life extension would be required due to some future environmental retrofit or upgrade in facility technology.

If it is determined that decommissioning probability should always be set to 100 percent in all cases, Minnesota Power propose the impact of the additional depreciation expense as a result of this change be deferred until the Company's next rate case.

Dated: April 7, 2014

Respectfully submitted,



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STATE OF MINNESOTA)
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AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

Kristie Lindstrom of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 7th day of April, 2014, she served Minnesota Power's Comments in Docket No. E,G-999/CI-13-626 to the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The remaining parties on the attached service list were served as so indicated on the list.

/s/ Kristie Lindstrom

Subscribed and sworn to before
me this 7th day of April, 2014.

/s/ Mary K Johnson

Notary Public - Minnesota
My Commission Expires Jan. 31, 2016

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