COMMERCE DEPARTMENT

September 9, 2020

Will Seuffert
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. G022/D-20-612

Dear Mr. Seuffert:

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

In the Matter of Greater Minnesota Gas, Inc.'s Petition for Approval of Depreciation Certificate.

The Petition was filed on July 22, 2020 by:

Kristine A. Anderson, Esq.
Greater Minnesota Gas, Inc.
1900 Cardinal Lane, P.O. Box 798
Faribault, Minnesota 55021
(507) 209-2110

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve Greater Minnesota Gas Inc.'s petition, with the modifications described herein**. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ GEMMA MILTICH
Financial Analyst, CPA

GM/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G022/D-20-612

I. INTRODUCTION

On July 22, 2020, Greater Minnesota Gas, Inc. (GMG or the Company) filed its 2020 five-year depreciation study (Petition) with the Minnesota Public Utilities Commission (Commission). The Company requests Commission approval for the depreciation parameters proposed in its Petition. With the exception of (1) depreciation-related changes requested for Federal Energy Regulatory Commission (FERC) Account 392 and (2) initial depreciation parameters proposed for FERC Account 390, the Company's depreciation proposals are consistent with GMG's most recently approved five-year depreciation study in Docket No. G022/D-15-671.[1] GMG seeks a January 1, 2021 effective date for its depreciation proposals.[2]

In addition, GMG's Petition includes information about the Company's 2015 – 2019 capital asset additions, retirements, transfers, and adjustments as well as the accruals to GMG's depreciation reserve.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed GMG's Petition to (1) determine whether the Petition complies with applicable statutes, rules, and Commission orders, (2) evaluate the reasonableness of the Company's depreciation proposals. The following is a discussion of the Department's review.

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. GMG filed its last five-year depreciation study in 2015 under Docket No. G022/D-15-671 and continues to use a Straight Line depreciation method, as it has done in the past.

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[1] Petition, page 63.
[2] Petition, page 2.

In determining the depreciable (useful) lives of their capital assets, utilities may choose to apply an average service life (ASL) or a remaining life technique. 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,[3] it does not need to file annual depreciation updates with the Commission. The instant Petition represents GMG's required five-year depreciation study.

In compliance with Minnesota Rule 7825.0700, Subpart 2, the Company reported that it does not anticipate any major upcoming capital additions or retirements that would materially impact the results of the instant depreciation study.[4]

Based on its review, the Department concludes that GMG has complied with the applicable statutes, rules, and filing requirements.

B. COMPLIANCE WITH PRIOR COMMISSION ORDERS

Consistent with the Commission's *Order* issued for the Company's 2010 depreciation study,[5] 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.[6]

Pursuant to the Commission's *Order* for GMG's 2015 depreciation study,[7] the Company (1) filed the instant Petition on July 22, 2020, prior to August 1, 2020, and (2) accrued a supplemental $584,624 to GMG's depreciation reserve over the period of 2015 – 2019.[8]

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

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[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.
[4] Petition, page 63.
[5] Commission's May 4, 2010 *Order* in Docket No. G022/D-10-78.
[6] Department Attachment 7.
[7] Commission's November 25, 2015 *Order* in Docket No. G022/D-15-671.
[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 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.

C. GMG'S DEPRECIATION METHODOLOGY

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

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. The Company also accrues salvage for its assets at salvage rates approved by the Commission.

D. GMG'S DEPRECIATION PROPOSALS

With the exception of Account 392 – *Transportation Equipment*, GMG proposed to continue using the same average service lives and salvage rates approved by the Commission in the Company's last depreciation study (Docket No. G022/D-15-671). In 2019, GMG recorded its initial capitalization under Account 390 – *Structures & Improvements*, prompting the Company to establish initial depreciation parameters for the associated assets. The following table summarizes GMG's depreciation proposals and its currently approved depreciation parameters.

Table 1: Greater Minnesota Gas's Proposed and Currently Approved Depreciation Parameters[9]

FERC Account	*Proposed ASL (years)*	*Approved ASL (years)*	*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%

[9] Data in Table 1 retrieved from Petition, page 63.

In its Petition, GMG noted that, with the Company being approximately 25 years old, the utility's system is relatively young. Due to the age of its system, GMG does not have a substantial foundation of historical asset retirement and salvage data on which to base its depreciation parameters.[10] Therefore, consistent with its past depreciation studies, the Company largely "relied on industry standard data" to determine its depreciation proposals.[11] GMG informed the Department that the Company considered industry information specific to other regulated Minnesota gas utilities, including the most recent five-year depreciation studies filed by Xcel Energy and Minnesota Energy Resources.[12] Given GMG's limited historical experience with its capital asset retirements, the Department concludes that, at this point, it continues to be reasonable for the Company to rely on industry data to develop its depreciation parameters. Based on our review, the Department recommends that the Commission approve GMG's depreciation proposals, with the exception of the salvage rate for Account 392 and along with the additional recommendations for Account 390, discussed in the following two sections.

1. *Requested Depreciation Changes for Account 392 – Transportation Equipment*

GMG requested approval to increase the ASL of Account 392 from 3 years to 4 years and to reduce the account's salvage rate from positive 30 percent to 0 percent. In its Petition, GMG explained that it requested these depreciation changes to Account 392 to reflect the Company's actual experience with the retirement cycle and salvage value of the vehicles (trucks) included in this account.[13] Specifically, GMG stated that it:

> …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.[14]

Since the Company generally uses the trucks in its fleet for 4 – 5 years, the Department concludes that it is reasonable to increase the ASL of Account 392 from 3 to 4 years. However, since GMG also reports that its retired trucks have a positive trade-in values, measurable in dollars, the Department does not believe a 0 percent salvage rate is appropriate for Account 392. We note that it is unnecessary to "indefinitely retain old fleet vehicles" in order for those vehicles to have a positive salvage value at the end of their useful life.[15] In response to Department information requests, GMG explained that it

[10] Petition, page 2.
[11] Petition, page 3.
[12] Department Attachment 2.
[13] Petition, page 4.
[14] *Id*.
[15] Minnesota Rule 7825.0500, Subpart 12 defines salvage as "…the amount received for assets retired, less any expenses incurred in connection with the sale or in preparing the assets for sale; or if retained, the amount at which the materials recoverable is chargeable to materials and supplies, or other appropriate accounts." The Department interprets this

records positive trade-in values for its trucks as a credit to accumulated salvage for accounting purposes[16] and that its accounting records show positive trade-in values for Account 392 retired assets in 2017, 2018, and 2019.[17] Given the Company's historical salvage value experience for the assets under Account 392, the Department concludes that it would be appropriate for GMG to assign a positive salvage percentage to the account.

Based on our review, the Department recommends that the Commission approve an ASL of 4 years for Account 392. 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,[18] 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 invites GMG to do so. Should GMG choose to provide a revised salvage proposal for Account 392 in Reply Comments, the Department will evaluate the Company's modified proposal at that time.

2. Initial Depreciation Parameters and Methodology for Account 390 – Structures & Improvements

In its 2019 plant activity, the Company reported an initial capitalization of $621,723 under Account 390.[19] GMG explained that this initial capitalization represents the Company's purchase of a corporate headquarters office building in Faribault, Minnesota and the corresponding capital improvements that the Company made to the building, following its purchase.[20]

a) Depreciation Parameters

According to GMG, it selected a 40-year and 15-year ASL for subaccounts 390.1 – *Structures* and 390.2 – *Improvements*, respectively, based on Internal Revenue Service (IRS) and Generally Accepted Accounting Principles (GAAP) guidelines. The Company further explained that a 0 percent salvage rate is appropriate for Account 390, given the high level of uncertainty associated with the future costs and

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definition as encompassing retired assets that are disposed of through trade-in transactions; while trade-in transactions are not identical to sales, they do transfer a measurable dollar value between two parties, which is the foundational consideration in determining an asset's salvage value.

[16] Department Attachment 1.

[17] Department Attachment 4.

[18] The Department notes that: Great Plains Natural Gas Company assigns a 10% salvage rate to Trailers and a 20% salvage rate to all other Transportation Equipment under Account 392 (most recently approved in Docket No. G004/D-19-376); Xcel Energy assigns a 10% and 15% salvage rate to Light Trucks and Heavy Trucks, respectively, in Account 392 (most recently approved in Docket No. E,G002/D-19-490); Minnesota Energy Resources Corporation assigns a 20% salvage rate to Autos and Light Trucks and a 15% salvage rate to Trailers under Account 392 (most recently approved in Docket No. G011/D-19-377).

[19] Petition, page 13.

[20] Department Attachment 3.

benefits of commercial building disposal.[21] The Department does not object to GMG's proposed parameters for Account 390, but we do note that the Company's requested ASLs for this account are below those typically used by Minnesota gas utilities.[22] Therefore, the Department recommends that the Commission (1) approve GMG's depreciation proposals for Account 390 and (2) require GMG in its next depreciation study or general rate case, whichever comes first, to discuss whether its expectations have changed for the Account 390 ASLs and explain why or why not.

b) Depreciation Methodology

In recent proceedings,[23] the Department has asked utilities to depreciate significant building assets included in Account 390 on an individual, rather than group, basis. While group depreciation can be appropriate for accounts with large volumes of relatively low-cost property items with similar characteristics, such as utility meters, it is not well suited for accounts with a small number of relatively high-value assets, such as buildings. In accounts with large volumes of similarly low-cost property units, the early or late retirement of assets should theoretically offset or balance one another over time. However, for accounts containing relatively few, high-cost items, the early or late retirement of an individual asset can have a significant impact on the account's depreciation as a whole, without the probability that offsetting retirements that will have a balancing effect on the account.[24]

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.

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[21] *Id*.
[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).
[23] Minnesota Energy Resources Corporation (Docket No. G011/GR-17-563); Minnesota Power (Docket No. E015/D-18-544); Xcel Energy (Docket No. E,G002/D-19-490); Great Plains Natural Gas Company (Docket No. G004/D-20-511).
[24] For a more detailed discussion on the depreciation issues contemplated in recent proceedings for Account 390, see pages 9 - 11 of the Department's July 14, 2020 Comments in Docket No. G004/D-20-511.

E. GMG'S PLANT ACTIVITY

The following table summarizes the Company'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	*Yearend Plant-in-Service Balance[25](A)*	*Yearend Reserve Balance[26](B)*	*Reserve Ratio (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%

Table 2 shows that, over time, the Company's depreciation reserve ratio has trended steadily upwards in increments of 1 – 2 percent; at a total of less than 20 percent in 2019, GMG's depreciation reserve ratio is relatively low. The upward trend in GMG's reserve ratio is consistent with the Company's steady investment in its system: As the plant-in-service balance increases, GMG books a corresponding greater amount of depreciation expense over time, resulting in a growing depreciation reserve. Because GMG is a relatively new company, with a utility system just under 25 years old, it is reasonable that the depreciation reserve ratio is lower than that of a longer-running utility with a more mature system.

F. GMG'S DEPRECIATION EXPENSE CALCULATIONS

The Department reviewed the depreciation expense calculations provided by GMG in pages 47 - 56 of the Petition to determine whether the documented depreciation provisions align with the ASL and salvage rate approved for each account. Based on our review, the Department concluded that, overall, the Company's booked depreciation in each account appeared to be reasonably consistent with the relevant approved depreciation parameters.[27]

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[25] Petition, pages 9 – 13.
[26] Petition, pages 24 – 28.
[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.

G. *EFFECTIVE DATE FOR CURRENT DEPRECIATION PROPOSALS AND SUBSEQUENT DEPRECIATION STUDY FILING DATE*

GMG requested an effective date of January 1, 2021 for its depreciation proposals in the instant Petition.[28] 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)[29] 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.

III. CONCLUSION AND RECOMMENDATIONS

Based on our review, the Department concludes that GMG's Petition complies with the applicable statutes, rules and Commission orders, and that, with the exception 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 invites 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.

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[28] Petition, page 2.
[29] Commission's November 25, 2015 *Order* in Docket No. G022/D-15-671.

- 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 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 by August 1, 2025.

/ja

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G022/D-20-612 ☐Nonpublic ☒Public
Requested From: Greater Minnesota Gas, Inc. Date of Request: 8/17/2020
Type of Inquiry: Financial Response Due: 8/27/2020

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

ADDITIONAL INSTRUCTIONS:
Each response must be submitted as a text searchable PDF, unless otherwise directed. Please include the docket number, request number, and respondent name and title on the answers. If your response contains Trade Secret data, please include a public copy.

Request Number:	**2**
Topic:	Salvage assumption for vehicle fleet.
Reference(s):	Page 4 of Greater Minnesota Gas's (GMG's) initial petition.

Request:

On page 4 of its initial petition, GMG stated that "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."

a) When the Company states that "…any remaining value of an older fleet vehicle is utilized to offset another fleet purchase in lieu of salvaging it…," does it mean that the trade-in value of retired vehicles is netted against the original cost of newly purchased vehicles in GMG's accounting records?

b) Please provide an example of the journal entries that GMG would record to (1) account for the retirement of a vehicle that had a positive trade-in value of, say, $5,000 and (2) account for the purchase of a new vehicle that is "offset" with the same positive trade-in $5,000 value of a retired vehicle.

c) In addition to the Company's historical experience, did GMG consider industry information when determining its proposed 0% salvage rate for Account 392 (vehicles)? If so, please provide a reference to specific information that agrees with GMG's proposed salvage assumption for vehicles. If not, please explain why not.

To be completed by responder

Response Date: August 27, 2020
Response by: Kristine Anderson
Email Address: kanderson@greatermngas.com
Phone Number: 507-209-2110

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
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Assigned Analyst(s): Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

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GMG'S RESPONSE:

(a) No. GMG records the trade-in value as accumulated salvage.

(b) An example of a relevant journal entry is found below:

Entry #	***Account***		**Debit**	**Credit**
#1	Accumulated Depreciation		25,000	
	Vehicles (new vehicle)		35,000	
	Vehicles (retired vehicle)			25,000
	Accumulated Salvage			5,000
	Note Payable			30,000
	To record the traded and purchase of new vehicle		60,000	60,000

(c) No, GMG did not review general industry information in this instance; but, rather, examined its actual utilization of its own fleet and predicated its decision on its particular situation rather than making assumptions about how other utilities manage their fleets.

To be completed by responder

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

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Request Number:	**4**
Topic:	Industry information used to develop depreciation parameters.
Reference(s):	Page 6 of Greater Minnesota Gas's (GMG's) initial petition.

Request:

GMG states that it "…incorporated general industry information into its historical service life and net salvage analysis to develop it service life and salvage data."

a) Please identify the source(s) from which GMG obtained the general industry information referenced in the preceding quote, and please explain whether and in what respect this industry information was geographically specific (i.e. specific to Minnesota, the Midwest, the United States, etc.).

GMG'S RESPONSE:

GMG reviewed the depreciation studies of other Minnesota natural gas utilities for comparative purposes in conjunction with performing its depreciation studies. In particular, GMG examined the most recent five-year depreciation studies submitted by Xcel Energy and Minnesota Energy Resources and compared the information contained therein with GMG's information. After considering GMG's currently approved depreciation certification, the information that GMG gleaned from its internal examination, and the information identified by other natural gas utilities, GMG believes that its approach is reasonable.

To be completed by responder

Response Date: August 27, 2020
Response by: Kristine Anderson
Email Address: kanderson@greatermngas.com
Phone Number: 507-209-2110

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Request Number:	**6**
Topic:	Additions to Account 390.
Reference(s):	Pages 13 and 57 - 63 of Greater Minnesota Gas's (GMG's) initial petition.

Request:

a) Please describe the assets added under Account 390.1 and 390.2 by providing for each structure/building/improvement: (1) the physical address, (2) the original cost, (3) the purpose/intended use of the structure/building/improvement, and (4) the in-service date. (Please note: The Department seeks to understand the basic characteristics of each distinct building/structure/improvement under Account 390, but we are *not* asking for a detailed accounting of the many smaller components that comprise each building/structure/improvement. For example, we would consider an office building to be a distinct asset under Account 390, but we are not seeking an accounting of the doors, windows, and roof that would make up the office building structure.)

b) How much of the $11,931 in accrued depreciation for Account 390 is allocated to each of Account 390.1 *Structures* and 390.2 *Improvements*?

c) Please explain why the proposed Average Service Lives (ASLs) of 40 and 15 years for Account 390.1 *Structures* and 390.2 *Improvements*, respectively, are reasonable. Please provide specific references to any industry information that GMG considered in determining these proposed ASLs.

d) Please explain why the proposed salvage rate of 0% is reasonable for Account 390. Please provide specific references to any industry information that GMG considered in determining this proposed salvage rate.

To be completed by responder

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Email Address: kanderson@greatermngas.com
Phone Number: 507-209-2110

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GMG'S RESPONSE:

(a) GMG purchased an office building located at 1900 Cardinal Lane, Faribault, Minnesota 55021 in April, 2019 for use as its corporate headquarters. GMG immediately began making minor changes and improvements to the building for its use and officially moved its office to the new location in July, 2019. The original purchase price of the property was $600,000 and allocations of costs were made to land, building, and structural items. GMG began making improvements in May of 2019 and continued making them throughout the year.

(b) $8,440 of the accrued depreciation was allocated to Account 390.1 (Structures); and, $3,491 was allocated to Account 390.2 (Improvements).

(c) GMG relied on IRS and GAAP guidelines its determination that a 40-year asset life for the structure and 15 and 20 year assets lives of the improvements are reasonable. Specifically, GMG referred to IRS Publication 946 and the Ernst & Young 2018 Worldwide Capital and Fixed Assets Guide.

(d) GMG believes that a salvage value of 0% is appropriate for its office building because commercial building values are generally uncertain, particularly in current economic times; and, the building that GMG purchased sat empty and on the sales market for a very lengthy period of time prior to GMG's purchase of it, suggesting that the area is not reflective of higher salvage values.

To be completed by responder

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Response by: Kristine Anderson
Email Address: kanderson@greatermngas.com
Phone Number: 507-209-2110

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G022/D-20-612 ☐Nonpublic ☒Public
Requested From: Greater Minnesota Gas, Inc. Date of Request: 8/17/2020
Type of Inquiry: Financial Response Due: 8/27/2020

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

ADDITIONAL INSTRUCTIONS:
Each response must be submitted as a text searchable PDF, unless otherwise directed. Please include the docket number, request number, and respondent name and title on the answers. If your response contains Trade Secret data, please include a public copy.

Request Number:	**7**
Topic:	Account 392 Transfer/Adjustments to depreciation reserve.
Reference(s):	Pages 25 - 28 of Greater Minnesota Gas's (GMG's) initial petition.

Request:

a) Please describe the nature of and reason for each of the Transfer/Adjustment amounts documented for the depreciation reserve (accumulated depreciation) for Account 392.

GMG'S RESPONSE:

The nature and reason for each of the transfer/adjustment amounts documented for the depreciation reserve (accumulated depreciation) for Account 392 are set forth below:

2016 - ($81,428) To record prior to 2015 asset reconciling adjustments.
2017 - $5,403 Trade-in Value
2018 - $15,700 Trade-in Value
2019 - $11,500 Trade-in Value

To be completed by responder

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Request Number:	**12**
Topic:	Depreciation details Account 387 and 391.
Reference(s):	Pages 53 - 54 of Greater Minnesota Gas's (GMG's) initial petition.

Request:

a) Please explain why GMG continued to book annual depreciation** under Accounts 387 and 391 beyond the end of the approved Average Service Lives (ASLs) of 8 and 6 years, respectively, for capitalization years that have long since passed the ASL. For example, why did GMG book annual depreciation in 2015 – 2019 for the 1995 capitalization of $41,000 in Account 387, when, with an ASL of 8 years, the $41,000 worth of assets would have been fully depreciated by 2003 or 2004, depending on the timing of the in-service date in 1995.

**The Department is referring to the "booked" depreciation, not the required catch up depreciation.

GMG'S RESPONSE:

GMG appreciates the Department bringing this error to its attention. Upon review, GMG realized that the table submitted in the Petition was erroneous; however, the actual accounting associated with depreciation of Account 387 and Account 391 was correct. Corrected spreadsheets are provided herewith. GMG apologizes for any inconvenience its mistake caused.

To be completed by responder

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Request Number:	**13**
Topic:	Average Service Lives used to calculate accruals.
Reference(s):	Pages 57 - 62 of Greater Minnesota Gas's (GMG's) initial petition.

Request:

a) Did GMG use an 8-year or 6-year Average Service Life (ASL) when calculating the 2015 - 2019 depreciation accruals for Account 391? Pages 57 – 62 of the petition show an 8-year ASL associated with Account 391, however, the Department's understanding is that the approved ASL for that account is 6 years.

b) Did GMG use a 42-year ASL or 30 & 50-year ASLs when calculating the 2015 - 2019 depreciation and salvage accruals for Account 383? Pages 57 – 62 of the petition show 30 & 50-year ASLs associated with Account 383, however, the Department's understanding is that the approved ASL for that account is 42 years.

c) Did GMG use a 3-year ASL or a 5-year ASL when calculating the 2015 - 2019 depreciation and salvage accruals for Account 392? Pages 57 – 62 of the petition show a 5-year ASL associated with Account 392, however, the Department's understanding is that the approved ASL for that account is 3 years.

GMG'S RESPONSE:

GMG appreciates the Department bringing the identified discrepancies to its attention. Upon review, GMG realized that the tables submitted in the Petition did not reflect the actual accounting methods implemented to comply with the Commission's prior Order. Corrected spreadsheets are provided herewith. GMG apologizes for any inconvenience its mistake caused.

To be completed by responder

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Request Number:	**14**
Topic:	Gains and losses on asset sales or other disposals.
Reference(s):	Commission's May 4, 2010 Order in Docket No. G022/D-10-78 and page 4 of the Department's September 16, 2015 Comments in Docket No. G022/D-15-671.

Request:

a) In reference to any gains and losses on asset sales or other disposals, please confirm whether GMG included those gains and losses in the depreciation reserve (accumulated depreciation), rather than flowing them through the income statement for the period of 2015 – 2019. Please explain your answer. (Please note: This information request is limited to the capital asset accounts included in GMG's instant deprecation filing.)

GMG'S RESPONSE:

GMG records gains and losses on asset sales in the reserve account and does not flow them through the income statement as ordered by the Commission in Docket No. G-022/D-15-671.

To be completed by responder

Response Date: August 27, 2020
Response by: Kristine Anderson
Email Address: kanderson@greatermngas.com
Phone Number: 507-209-2110

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. G022/D-20-612

Dated this **9th** day of **September 2020**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kristine	Anderson	kanderson@greatermngas.com	Greater Minnesota Gas, Inc.& Greater MN Transmission, LLC	1900 Cardinal Lane PO Box 798 Faribault, MN 55021	Electronic Service	Yes	OFF_SL_20-612_D-20-612
Cody	Chilson	cchilson@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Ln PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_20-612_D-20-612
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-612_D-20-612
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_20-612_D-20-612
Brian	Gardow	bgardow@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Ln PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_20-612_D-20-612
Nicolle	Kupser	nkupser@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Ln PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_20-612_D-20-612
Greg	Palmer	gpalmer@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Ln PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_20-612_D-20-612
Generic Notice	Residential Utilities Division	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_20-612_D-20-612
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-612_D-20-612