MINNESOTA DEPARTMENT OF COMMERCE

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August 13, 2015

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

RE: **Letter of the Minnesota Department of Commerce, Division of Energy Resources (Department)**
Docket No. G011/D-15-534

Dear Mr. Wolf:

On July 20, 2015, the Minnesota Department of Commerce (Department) filed Comments in Minnesota Energy Resources Corporation's (MERC or the Company) request for its Annual Review of Depreciation Rates for 2015. With one exception, the Department recommended that the Minnesota Public Utilities Commission (Commission) approve MERC's proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2015 including MERC's proposal for an average service life of eight years, an Iowa L3 curve, and a negative 25 percent net salvage rate for Transportation Equipment, Account 392.2. The Department also recommended that the Commission deny MERC's request to use the current depreciation rate of 0.18 percent for new investment in Trailers, Account 392.

Additionally, the Department requested that in its Reply Comments, MERC provide a discussion on whether a full study of all accounts including the purchased of Interstate Power and Light Company's (IPL) gas utility property could be completed by June 1, 2016 rather than June 1, 2017.

On July 31, 2015, MERC filed its Reply Comments. MERC agreed with the Department's recommendation to approve the depreciation rates effective January 1, 2015 and to use the General Plant composite depreciation rate of 4.47 percent for new investment in Trailers, Account 392.

Regarding whether a full study of all accounts could be done by June 1, 2016, MERC proposed to maintain the schedule and complete a full study by June 1, 2017. MERC stated:

> While MERC acknowledges that a study could be undertaken in 2016, MERC questions the benefit in doing so. Though the acquisition of IPL's gas assets may be unusual, the dollar amount of the acquired assets does not represent an extensive addition. The IPL assets acquired, $17,690,000 at cost, represents only 4.3% of MERC's plant assets at the time of purchase. MERC discussed the asset acquisition with John Spanos of Gannett Fleming, its depreciation consultant. Mr. Spanos also completed the depreciation study for the IPL assets. In Mr. Spanos' opinion, the acquired assets would have an insignificant impact to the depreciable lives, curves, or net salvage percentages currently in place for MERC. Based on the above discussion, MERC believes the June 1, 2017, date remains appropriate.

If MERC were not expected to file a rate case in the near term, the Department might agree with the Company that the extensive review could wait. However, Minn. Stat. § 216B.16, subd. 4 states that "[t]he burden of proof to show that the rate change is just and reasonable shall be upon the public utility seeking the change." Given that a significant focus of that rate proceeding will be to incorporate the costs of IPL's gas utility assets in rates, it is not clear how the record will be developed adequately for the Commission to make the determinations required in Minn. Stat. § 216B.16 subd. 4, which states:

> The commission, in the exercise of its powers under this chapter to determine just and reasonable rates for public utilities, shall give due consideration to the public need for adequate, efficient, and reasonable service and to the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property. In determining the rate base upon which the utility is to be allowed to earn a fair rate of return, the commission shall give due consideration to evidence of the cost of the property when first devoted to public use, to prudent acquisition cost to the public utility less appropriate depreciation on each, to construction work in progress, to offsets in the nature of capital provided by sources other than the investors, and to other expenses of a capital nature. For purposes of determining rate base, the commission shall consider the original cost of utility property included in the base and shall make no allowance for its estimated current replacement value.

Thus, if MERC is unable to provide a full depreciation study in time for its upcoming general rate case, the Commission may wish to set rates in that proceeding on a provisional basis, subject to later review of MERC's depreciable lives, curves, or net salvage rates, in the June 1, 2017 study.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/lt

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, 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 – LETTER

Docket Nos. **G011/D-15-534**

Dated this **13th** day of **August, 2015**.

/s/Linda Chavez

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