MINNESOTA DEPARTMENT OF COMMERCE

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July 20, 2015

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

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

Dear Mr. Wolf:

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

> A Request by Minnesota Energy Resources Corporation (MERC or the Company) for its Annual Review of Depreciation Rates for 2015.

The petition was filed on June 1, 2015. The petitioner is:

> Tina E. Wuyts
> Senior Accountant
> Integrys Business Support, LLC
> PO Box 19001
> Green Bay, WI 54307-9001

With one exception, Department recommends 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.

Further, the Department recommends that the Commission deny MERC's request to use the current depreciation rate of 0.18 percent for new investment in Trailers, Account 392.

The Department requests that in its Reply Comments, MERC provide a discussion on whether a full study of all accounts including the purchased IPL property can be completed by June 1, 2016 rather than June 1, 2017.

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

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/lt

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G011/D-15-534

I. SUMMARY OF MERC'S PETITION

Pursuant to Minn. Stat. §216B.11 and Minn. R. 7825.0500 through 7825.0900, on June 1, 2015, Minnesota Energy Resources Corporation (MERC or the Company), filed a petition requesting the Minnesota Public Utilities Commission's (Commission) approval of the Company's proposed depreciation lives and rates effective January 1, 2015. Further, MERC's petition was filed in compliance with the Commission's October 13, 2014 *Order* in Docket No. G007,011/D-14-455 (Docket No. 14-455) which required the next annual review of depreciation rates to be filed on or before June 1, 2015.

In its petition, MERC requested:

- an eight-year life, an Iowa L3 curve, and a negative 25 percent net salvage rate for Transportation Equipment, Account 392.1; and
- to continue to use the current depreciation rate of 0.18 percent for new investment in Trailers, Account 392.

MERC proposed no other changes except for the one-year passage of time.[1] The net effect of the proposed changes is an annual increase in depreciation expense of $102,405.

[1] Vintage amortization accounting was approved in Docket No. G007,011/D-08-614 for certain general plant accounts. Although those accounts are excluded from the annual remaining life update schedules, MERC continues to apply the lives and depreciation rates. Petition, pages 3-4.

II. DEPARTMENT ANALYSIS

The Department examined MERC's 2015 Petition for compliance with filing requirements and previous Commission Orders, and for the reasonableness of the proposed lives, net salvage rates, and resulting depreciation accruals.

A. FILING REQUIREMENTS

Minnesota Rule 7825.0700 requires the following depreciation schedules and documentation:

- plant in service;
- analysis of depreciation reserve;
- summary of annual depreciation accruals;
- accounts studied and results;
- major future additions or retirements; and
- any additional documentation necessary to support findings of the study.

The Department's review confirms that MERC substantially complied with the filing requirements in Minnesota Rule 7825.0700. Regarding future additions or retirements, MERC does not believe there will be any additions or retirements that will have a material effect on the depreciation rates.[2] MERC also stated that:

> In Docket No. G001,G011/PA-14-107, MERC received Commission approval to purchase Interstate Power and Light Company ("IPL") natural gas distribution property, which will utilize MERC's existing depreciation rates and lives. The property was purchased subsequent to December 31, 2014 and therefore, was not incorporated in MERC's 2015 remaining life update. MERC will incorporate the IPL property into its 2016 depreciation filing.[3]

B. DEPRECIATION PROPOSALS

1. Transportation Equipment

Transportation Equipment, Account 392.1, includes cars, trucks, and cargo vans.[4] In the most recent depreciation petition,[5] the Commission approved MERC's proposal to hold the depreciation rate at 8.63 percent for Transportation Equipment for 2014. At the time, MERC reasoned that its more recent purchases would reflect longer lives. MERC also proposed to monitor the additions and retirements and propose other adjustments to the Transportation Equipment account in future remaining life (RL) update filings.

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[2] Petition, page 7.
[3] Petition, pages 6-7.
[4] MERC's Attachment 2, page 16, shows the Transportation Equipment account.
[5] Docket No. 14-455.

In the current petition, MERC stated:

> As noted in last year's submission, numerous vehicles in Account 392.1, Transportation Equipment, were leased by MERC's prior owner, Aquila, and were subsequently purchased by MERC. For these vehicles, the vintage in the Company's capital asset management system reflects the year they were purchased and not the actual vintage of the vehicles.
>
> For this year's filing, MERC performed an analysis to identify the actual vintages for the vehicles in Account 392.1 Transportation Equipment. Plant transactions from 2006-2014 by vintage were then placed in experience bands to determine the exposures at the beginning of each age interval and retirements during each age interval.

Further, MERC provided its *Original Life Table* showing the surviving plant by age intervals[6] and stated:

> The percent surviving were then plotted on a graph to determine the Iowa curve and average service life that most appropriately fits. MERC reviewed multiple Iowa curves and average service lives including the currently approved Iowa 6-R1 curve. Using judgment, the Iowa 8-L3 curve was selected as the most appropriate.

Thus, MERC proposed an average service life of eight years and an Iowa L3 curve. Based on its analysis, the Department agrees with the Company that the average service life should be lengthened from 6 to 8 years resulting in a remaining life (RL) of 5.03. Therefore, the Department recommends that the Commission approve an average service life of 8 years and an Iowa L3 curve for Transportation Equipment, Account 392.1.

For the salvage rate, MERC proposed to use 25 percent net salvage.[7] MERC stated that it reviewed the currently approved 30 percent net salvage on Transportation Equipment and noted that the actual net salvage had been trending lower. The Department requested that MERC provide its salvage study to support the downward trend.[8] MERC e-filed the study on July 2. The study supports a negative 25 percent net salvage rate. Therefore, the Department recommends that the Commission approve a negative 25 percent net salvage rate for Transportation Equipment, Account 392.1.

[6] Petition, page 5.
[7] Petition, page 6.
[8] June 6, 2015 email.

The effect of MERC's Transportation Equipment life and salvage proposals would be an increase to MERC's 2015 depreciation expense and rate as shown in Table 1 below:

Table 1: Transportation Equipment[9]

12/31/14 Plant	12/31/14 Reserve	ASL	RL	NSV	Proposed Rate	Present Rate	Proposed Expense	Present Expense	Proposed Increase
$5,239,648	$1,464,248	8.0	5.03	25%	8.63%	9.35%	$490,157	$452,182	$37,975

As stated above, the net effect of the proposed changes is an annual increase in depreciation expense of $102,405. The remaining changes in depreciation expense are mainly due to plant additions in Mains, Account 376.0, and Services, Account 380.0.

2. *Trailers*

The Trailer equipment is fully depreciated but may have future investments in the account. MERC requested that the Commission allow it to continue to use the current depreciation rate of 0.18 percent for Trailers, Account 392.[10]

Per the July 29, 2013 *Order Certifying Depreciation Rates and Methods with Modification, Requiring Filing* in Docket No. G007,011/D-12-533, the Commission approved:

> MERC's proposal to use functional composite depreciation rates for asset classes that arise in the future for which no depreciation rate is currently approved or for asset classes that are fully depreciated but may have future investment. The rates may be used only until MERC files its next five-year depreciation study, or upon separate filing by MERC requesting certification of a new rate.

The proposed composite depreciation rate for General Plant is 4.47 percent for any/all 2015 investment in Trailers.[11] Therefore, the Department recommends that the Commission deny MERC's request to use the current depreciation rate of 0.18 percent for new investment in Trailers, Account 392.

3. *IPL's Assets Acquired by MERC*

The sale of IPL's gas assets to MERC was approved by the Commission and an Order was issued on December 8, 2014.[12] Further, the transaction was completed on April 30, 2015. In its petition, the Company stated that it will use MERC's 2015 depreciation rates for depreciation expense and incorporate the IPL property into its 2016 depreciation filing:

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[9] MERC's Attachment 1, Statement 2A.
[10] MERC's proposal is in footnote 2 on its Attachment 1, Attachment 2A. The Department notes that this request was included in the Company's 2013 depreciation study but went unnoticed due to the fact that it was also in a footnote on the same attachment for that year.
[11] MERC's Attachment 1, Statement 2A.
[12] Docket No. G001,011/PA-14-107.

> In Docket No. G-001,011/PA-14-107, MERC received Commission approval to purchase Interstate Power and Light Company ("IPL") natural gas distribution property, which will utilize MERC's existing depreciation rates and lives. The property was purchased subsequent to December 31, 2014 and therefore, was not incorporated in MERC's 2015 remaining life update. MERC will incorporate the IPL property into its 2016 depreciation filing.[13]

Further, in Docket No. E,G001/D-15-248,[14] MERC's June 5, 2015 letter stated:

> MERC has integrated the acquired assets into its existing asset base and will incorporate these assets in MERC's next five-year depreciation study. MERC discussed the need for historical data on the acquired assets as part of the purchase transaction in order to facilitate MERC's future depreciation study and IPL has committed to work with MERC to facilitate obtaining the necessary data.

Currently, MERC's next five-year study[15] is due up to two years from now (on or before June 1, 2017). Given this relatively unusual and extensive addition to MERC's assets, it may be appropriate to complete the full study as soon as practicable. Therefore, the Department requests that in its Reply Comments, MERC provide a discussion on whether a full study of all accounts including the purchased IPL property can be completed by June 1, 2016 rather than June 1, 2017.

C. HISTORICAL RESERVE RATIOS

In prior depreciation studies, the Commission requested a history of the utility's reserve ratios. The plant balances and reserve ratios for the last five years are presented in Table 2 below:

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[13] Petition, pages 6-7.
[14] IPL's Request for Extension to File its Five Year Depreciation Study.
[15] A five-year study of the depreciation rates is normally more extensive than an annual update. In a five-year study, all primary accounts are analyzed. In an annual update, the depreciation rates are reviewed to determine if they are still generally appropriate. See Minn. Stat. 7825.0600, subp. 2(D).

Table 2: Plant Balances and Reserve Ratios[16]

		Yr. End Plant	Reserve	Reserve
	Year	Balance[17]	Balance[18]	Ratio
		(a)	(b)	(c) = (b)/(a)
Consolidated	2014	$387,442,937	$164,120,540	42.36%
Consolidated	2013	$364,465,679	$157,877,434	43.32%
Consolidated	2012	$348,120,277	$154,533,080	44.39%
If Consolidated[19]	2011	$336,089,137	$151,311,921	45.02%
If Consolidated	2010	$323,540,130	$144,126,497	44.55%

The above reserve ratios indicate the percentage of plant depreciated or expensed by the end of each calendar year. Since 2011, the reserve ratio has decreased which indicates that plant is growing at a rate greater than the depreciation reserve and retirements of plant. As of the end of 2014, approximately 42.36 percent of MERC's plant was expensed.

III. RECOMMENDATION

Based on its review of MERC's RL update, with one exception, the Department recommends that the 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 392.1.

Further, the Department recommends that the Commission deny MERC's request to use the current depreciation rate of 0.18 percent for new investment in Trailers, Account 392.

Finally, the Department requests that in its Reply Comments, MERC provide a discussion on whether a full study of all accounts including the purchased IPL property can be completed by June 1, 2016 rather than June 1, 2017.

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[16] MERC's Attachment 1, Statements 1A and 1B for 2014. Docket No. G011/D-14-455, MERC's Attachment 1, Statements 1A and 1B for 2013 and 2012. Docket No. G007,011/D-12-533, MERC Ex. 5 and 6 for 2010-2011.
[17] Excludes amortized General Plant amounts since the accounts are not part of the RL study.
[18] The Reserve Balance excludes allocated Retirement Work in Progress (RWIP).
[19] For comparison purposes, the Department added MERC-PNG's and MERC-NMU's pre-consolidation amounts for plant and reserve and recalculated the ratio for the years 2010 and 2011.

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. G011/D-15-534

Dated this 20th day of July 2015

/s/Sharon Ferguson

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