division of energy resources
Minnesota Department of Commerce

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December 31, 2012

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

RE: **Comments of Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G004/D-12-565

Dear Dr. Haar:

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

Great Plains Natural Gas' Five-Year Depreciation Study.

The petition was filed on June 1, 2012 by:

Rita A. Mulkern
Regulatory Affairs Manager
Great Plains Natural Gas Company
705 West First Avenue
P.O. Box 176
Fergus Falls, MN 56538-0176

The Department requests that Great Plains Natural Gas Co. provide additional information in reply comments and will make a recommendation to the Minnesota Public Utilities Commission (Commission) after it reviews this information. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/jl
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G004/D-12-565

I. SUMMARY OF GREAT PLAINS' PROPOSAL

On June 1, 2012, Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc. (Great Plains or the Company) filed a five-year remaining-life depreciation study (the 2012 Depreciation Study) reflecting December 31, 2011 plant-in-service and depreciation reserve balances. The Company stated that the application of values for proposed lives, gross salvage, and cost of removal to December 31, 2011 plant and reserve balances results in depreciation expense of $1,261,248, or $204,386 lower than depreciation expense would be under current depreciation parameters approved in Docket No. G004/D-11-499 (2011 Depreciation Study). The proposed depreciation parameters yield a composite depreciation rate of 3.85 percent for 2011, or 0.62 percentage points lower than the composite depreciation rate yielded by currently approved depreciation parameters.

II. DEPARTMENT ANALYSIS

The Department examined Great Plains' 2012 Depreciation Study for compliance with filing requirements and previous Minnesota Public Utilities Commission (Commission) Orders, and for the reasonableness of the proposed remaining lives, salvage rates, and depreciation accruals.

A. COMPLIANCE WITH FILING REQUIREMENTS AND COMMISSION ORDERS

1. Requirement to File an Annual Depreciation Study

Minnesota Statutes Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900 require public utilities to seek Commission approval of their depreciation practices. Utilities must also file depreciation studies at least once every five years and must use straight-line depreciation unless a different method can be justified. When utilities use the average service life technique to depreciate group property accounts, the life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies. When companies choose the remaining-life technique for depreciating group property accounts, the underlying life and salvage factors may not change, but depreciation rates are adjusted annually to reflect the effect of the passage of time on remaining lives, as well as the impact of plant additions and retirements. Annual depreciation study updates are required when the remaining-life technique is employed to allow the Commission the opportunity to approve changes in depreciation rates.

Because Great Plains uses the straight-line-broad-group procedure and vintage-group amortization together with the average-remaining-life technique to depreciate or amortize its plant investments, an annual study is required. The Commission's December 23, 2011 Order in Docket No. G004/D-11-499 (2011 Depreciation Order) required Great Plains to file a five-year depreciation study by June 1, 2012. The Company met this requirement by filing its 2012 Depreciation Study on June 1, 2012.

2. Requirement to Propose Depreciation Rates that Are Effective Retroactively to January 1, 2011

The Company has also complied with the requirement to propose depreciation rates that are effective January 1, 2012. The Commission's Order dated March 21, 2007 in Docket No. G004/D-06-700 required that all future remaining life depreciation and amortization studies be effective on January 1 of the year for which the study is performed starting with the depreciation study performed for year-end 2007. The Commission's 2011 Depreciation Order required Great Plains to file a 2012 remaining life depreciation study by June 1, 2012, which would therefore require Great Plains to propose rates that would be effective on January 1, 2011. Great Plains' 2012 Depreciation Study appropriately proposes depreciation rates to be effective January 1, 2012 based upon December 31, 2011 plant and reserve balances.

3. Requirement to Use Currently Approved Rates

Great Plains met the requirement to use currently approved rates in 2011. Upon certification by the Commission on December 23, 2011, the depreciation rates proposed in the 2011 Depreciation Study became effective as of January 1, 2011 and Great Plain's appropriately applied them to its books. The depreciation rates reported on pages G-20 through G-22 of Great Plains' 2011 Jurisdictional Annual Report (JAR), filed on May 1, 2012 in Docket No. G004/PR-11-4, match the depreciation rates approved in the 2011 Depreciation Order.

4. True-Up of 2010 Jurisdictional Annual Report

As part of its review of Great Plains' 2011 Depreciation Study, the Department compared the depreciation rates approved in the Company's 2010 depreciation docket (Docket No. G004/D-

10-533) to the depreciation rates reflected in the Company's 2010 JAR (Docket No. G004/PR-11-4). The Department found that Great Plains' 2010 JAR had not been updated and inappropriately reflected the depreciation rates approved by the Commission in Great Plains 2009 depreciation docket (Docket No. G004/D-09-608). As recommended by the Department, the Commission's 2011 Depreciation Order required the Company include with its 2011 JAR a true-up to correct for the application of the incorrect depreciation rates in 2010. Great Plains 2011 JAR did not include an explicit true-up, and the Department is unable to tell whether Great Plains corrected the error as ordered. Thus the Department requests that Great Plains discuss in reply comments whether the depreciation reserves in the 2011 JAR have been adjusted to correct this error and either show how the correction has been made or show how the correction should be made.

B. REASONABLENESS OF PROPOSED REMAINING LIVES, SALVAGES, AND IMPACT OF RESULTING DEPRECIATION ACCRUALS

1. Proposed Lives

As part of its 2012 Depreciation Study, Great Plains analyzed the retirement experiences of its plant accounts to determine if its average service life (ASL) assumptions and the resulting remaining lives are still appropriate. Attachment No. 1 contains a summary of Great Plains' current and proposed depreciation parameters. Great Plains' is proposing no changes to the average service life assumptions of many accounts. For those accounts, the difference between the current and proposed remaining lives is due solely to the passage of time, additions, retirements and transfers. Great Plains' is proposing modest changes to the life assumptions for several plant accounts and larger changes for a few other accounts. The Department has reviewed Great Plains' proposed life changes and, with the exception of change proposed for Account 390, concludes that the Company has provided adequate justification for all of the changes and that the proposed remaining lives are reasonable. The Department discusses the proposed lives of Account 390 and several other accounts in greater detail below.

a. Accounts 305, 311, and 320

Great Plains has proposed to reduce the remaining lives of accounts 305, 311, and 320 to 1.50 years, 1.49 years, and 1.32 years, respectively, to reflect the fact that all of the assets in those accounts are expected to be disconnected and removed in 2013. The property in these accounts is comprised solely of the Company's propane peaking facilities in Montevideo, MN and Marshall, MN. The Commission approved Great Plains' requests to retire the Montevideo plant in Docket No. G004/M-10-1164 and sell the facility in Docket No. G004/PA-11-1008. The Department recommended that the Commission approve Great Plains' request to retire the Marshall facility in Comments dated February 2, 2012 in Docket No. G004/M-11-1075.[1]

[1] Great Plains' addresses these facilities in its response to Information Request No. 8, which is included with these Comments as Attachment No. 2.

The Department considers the proposed remaining lives to be reasonable, but requests that Great Plains provide further clarification of the accounting treatment of these transactions. In Docket No. G004/PA-11-1008, Great Plains committed to record the gain on the sale of the Montevideo facility in FERC Account 108, Accumulated Provision for the Depreciation of Gas Utility Plant, which would have reduced depreciation expense on the Marshall facility. In that Docket, it was assumed that the Marshall facility would remain in the accounts after the Montevideo facility was retired. The gain on the sale of the Montevideo facility would have been added to the accounts' accumulated depreciation reserves, which would have reduced their undepreciated balances and lowered depreciation expense on the remaining plant balances in the accounts (i.e. the Marshall facility). However, Great Plains' is now proposing to retire both the Montevideo facility and the Marshall facility, and after that happens there will no longer be any property in these accounts to depreciate. Because it is likely that there will be a remaining reserve balance in these accounts due to gains or losses on sales, the Department requests that Great Plains describe in reply comments how that remaining reserve will be dealt with.

b. Account 369.00 Meas. & Reg. Station Equipment

Great Plains proposed a remaining life of 28.83 years for Account 369, which is 9.20 years longer than the remaining life approved last year (19.63 years). Great Plains is not proposing any changes to the account's average service life of 35 years, and the extended remaining life is attributable solely to the significant level of net additions ($311,821) in 2011, which exceeded the account's entire beginning-of-year plant balance ($257,113). Because Great Plains was able to support the change, the Department concludes that the proposed remaining life is reasonable.

c. Account 376.10 Plastic Mains

Great Plains proposed to extend the average service life of Account 376.10 from 30 to 45 years. As a result, the account's remaining life would increase from 19.38 to 34.30 years. The Department reviewed the Company's Service Life Analysis for the account, contained on page 5-24 of the 2012 Depreciation study, and concludes that the information supports the proposed average service life. Thus, the Department concludes that the proposed average service life and remaining life are reasonable.

d. Accounts 376.11 Plastic Mains – PVC and 380.11 Plastic Services – PVC

Great Plains has proposed remaining lives of 7.5 years for Accounts 376.11 and 380.11. On page 4-29 of the 2012 Depreciation Study, the Company's depreciation consultant stated:

> In recent years concern has been voiced within the regulatory arena about the longer term life of the installed base of PVC pipe. Based upon discussions with Company management, the Company

> believes that in future years the Minnesota Office of Pipeline Safety may require a replacement program for PVC pipe.

Additionally, in response to Information Request Nos. 11 and 13, the Company stated that PVC pipe includes no locating wire and presents an operations issue, as locating PVC pipe is more difficult than locating other types of pipe.[2] The Company also stated that it is difficult to find replacement parts such as stopping equipment and taps.

The Department notes that the remaining life approved for Account 376.11 in the 2011 Depreciation Study was 7.44 years, and the PVC replacement program has only a small impact. The Department concludes that the remaining life proposed for Account 376.11 is reasonable.

The Department has concerns about the proposed remaining life for Account 380.11. The remaining life approved in the 2011 Depreciation Study was 1.55 years, and the proposed 7.50-year remaining life is an extension, rather than a reduction as suggested by the reasons Great Plains offers for the change. Because the extension is based more on Company policy, rather than actual retirement experiences, the Department questions whether the property can be relied upon to provide safe and reliable service for as many as 15 more years. The Department notes that Great Plains' service life analysis, while not used in calculating the remaining life, yielded a 40-year ASL for Account 380.11, compared to the current ASL of 30 years, which may support the longer remaining life. The Department requests that Great Plains respond to these concerns in reply comments.

The Department also notes that its recommendation of approval of the remaining life that is tied to the replacement program is not a recommendation as to the prudency of the replacement program. The Department questions the necessity of a replacement program implemented in response to safety regulations which do not yet exist. Certainly Great Plains has every right to invest its capital in this project, but if and when the Company files a rate case it will have to demonstrate the prudency of this replacement program in order to include the new plant in rate base.

e. Accounts 381 Meters and 383 House Regulators

Great Plains is currently reviewing a plan to implement an automatic meter reading (AMR) system that would require replacing 90% of the Company's existing meters (Account 381).[3] The replacement plan would take place over a 15 year period, and because the Company considers the plan's adoption probable, the meters which the Company intends to replace have been assigned a remaining life of 7.50 years. The proposed ASL and remaining life of the 10% of meters which do not need to be replaced are 45 years and 25.45 years, respectively. The proposed 9.30-year remaining life for the account is the weighted average of the two sets of meters.

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[2] Great Plains' responses to Information Request Nos. 11 and 13 are included with these Comments as Attachment Nos. 3 and 4.
[3] 2012 Depreciation Study, pages 1-5 and 1-6.

Regulators will have to be replaced as the associated meters are replaced; thus Great Plains has proposed to set the remaining life of Account 383 equal to the remaining life of Account 381. The Department concludes that the proposed ASLs and remaining lives reasonably reflect the Company's proposed plan to replace its meters. However, Great Plains will need to show that the plan to replace meters is prudent to obtain approval of the costs of the meter and regulator replacements.

f. Account 390 General Structures & Improvements

Great Plains has proposed an ASL of 45 years for Account 390, a significant decrease from the current 70-year ASL. Despite this large decrease, Great Plains has proposed 19.62-year remaining life *extension*. These proposed changes result from a change in the property included in this account, primarily a new administrative building and several related structures, described on page 1-7 of the 2012 Depreciation Study. Additionally, in its response to Information Request No. 18, Great Plains stated that it has sold several business and service structures that were no longer needed.[4] The described changes to the content of the account are consistent with the addition and retirement activity reflected in Great Plains depreciation filings over the last several years, particularly 2008, which saw $1.0 million in additions and $579 thousand in retirements, large numbers relative to the $1.7 million gross plant balance on December 31, 2011.

The Department concludes that the proposed ASL and remaining life for Account 390 are consistent with Great Plains' description of the changes in the content of the account. However the Department notes that Minnesota Rule 7825.1700 requires utilities to seek Commission approval of sales and acquisitions of property valued at greater than $100,000 and thus requests that Great Plains describe in reply comments whether it petitioned for and received Commission approval of the transactions in this account, particularly those booked in 2008.

2. Salvage Values

As part of its 2012 Depreciation Study, Great Plains analyzed the salvage experiences of its plants accounts to determine if their gross salvage and cost of removal rates are still appropriate. The Company has proposed to leave its gross salvage and cost of removal rates unchanged from the 2011 Depreciation Study for all but three accounts, discussed below. The Department concludes that the proposed gross salvage and cost of removal values for all other accounts are reasonable.

a. Accounts 305, 311, and 320

Accounts 305, 311 and 320 all currently have gross salvage rates of zero, and Great Plains has proposed to increase the gross salvage rates of all three accounts to ten percent. Additionally, Great Plains has proposed to increase the cost of removal rate for Account 311 from negative ten percent to zero. As discussed above, the property in these accounts is no longer used, and Great

[4] Great Plains' response to Information Request No. 18 is included with these Comments as Attachment No. 5.

Plains expects to disconnect and remove these assets in the near future. The proposed gross salvage and cost of removal changes imply that the Company now expects to incur positive salvage when the property in these accounts is disposed of. In Information Request No. 8, the Department asked Great Plains to explain why it expected positive salvage from the property in Accounts 305 and 311. In its response, Great Plains stated:

> The Company has no specific experience relative to gross salvage or cost of removal for Account 305-Structures and Improvements. Relative to Account 311-Liquified Propane Equipment the Company historically has achieved a modest 2.3 % gross salvage and approximately 1% cost of removal related to interim retirements of this property class. Given that the property is now at the end of its useful service life it is anticipated that there will be even less opportunity to achieve potential gross salvage, hence the 0 percent gross salvage. Conversely, the removal of the properties will result in the Company expending a modest amount of funds to physical[ly] demolish the facilities and restore the sites. It may be that the Company will expend greater amounts to complete such tasks. At the present time there specific bids or project cost estimates [sic].[5]

This response directly contradicts the proposed changes and seems to support the retention of these two accounts' current gross salvage and cost of removal rates. As a result, the Department requests that Great Plains clarify its position in reply comments.

3. Resulting Depreciation Rates

The Department concludes that the depreciation rates proposed in the 2012 Depreciation Study are reasonable for all accounts except Accounts 305, 311, 320, and 391.30. The Department's questions surrounding the salvage components of Accounts 305, 311, and 320 are discussed above.

The calculation of the proposed amortization rate for Account 391.30, shown in Table 5-391.30 of the 2012 Depreciation Study, contains a minor error. The table calculates an annual amortization amount of $16,062.84 for vintage 2008 property, which exceeds the total amount of unamortized vintage 2007 property of $7,098.36. This error is the result of dividing the unamortized balance by a Remaining Amortization Period that is less than one year. In its response to Department Information Request No. 3, Great Plains stated that "The amortization will only be recorded for the applicable remaining amortization portion of the year."[6] Correcting this error lowers the account's depreciation rate from 25.00 percent to 14.27 percent.

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[5] Great Plains' response to Information Request No. 8 is included with these Comments as Attachment No. 1.
[6] Great Plains' response to Information Request No. 3 is included with these Comments as Attachment No. 6.

The Department concludes that a 25.00 percent amortization rate for Account 391.30 is unreasonable, and recommends the amortization rate of 14.27 percent.

C. PLANT AND RESERVE ACTIVITY AND BALANCES

Great Plains' plant activity, accrual rates, and reserve ratios for all of its plant accounts for the last five years are presented below:

Great Plains Natural Gas Company
Reserve Ratio Summary
2007 - 2011
($)

Year	Increase in Plant	Gross Plant Balance	Annual Depr. Provision	Accrual Rate	Increase in Reserve	Reserve Balance	Reserve Ratio
2011	1,467,710	33,719,664	1,472,910	4.37%	587,070	23,107,297	68.53%
2010	1,497,137	32,251,954	1,364,776	4.23%	942,720	22,520,227	69.83%
2009	2,376	30,754,818	1,446,197	4.70%	749,136	21,577,506	70.16%
2008	1,695,185	30,752,441	1,412,577	4.59%	272,145	20,828,370	67.73%
2007	520,844	29,057,256	1,191,235	4.10%	877,543	20,556,226	70.74%

Source: Great Plains' Depreciation Studies, 2008 through 2012
Note: The 2010 Annual Depreciation Provision and Accrual Rate reported above have been corrected to reflect one-time adjustments made by Great Plains' in their 2010 Depreciation Study. The Department's Comments in Docket No. G004/D-11-499 contain a detailed explanation of the adjustments.

Great Plains' accrual rate increased slightly from 4.23% in 2010 to 4.37% in 2011. The Company's overall reserve ratio decreased slightly from 69.83% in 2010 to 68.53% in 2011, which is consistent with the observed plant additions.

III. CONCLUSION

As described above, after reviewing Great Plains 2012 Depreciation Study the Department concludes that the majority of the proposed remaining lives, salvage rates and depreciation rates are reasonable. However, the Department requests that Great Plains address in reply comments the issues raised above. Specifically:

1. The Department requests that Great Plains discuss in reply comments whether the depreciation reserves in the 2011 JAR have been adjusted to correct for the application of erroneous depreciation rates in the 2010 JAR.

2. The Department requests that Great Plains describe in reply comments how remaining reserve balances in Accounts 305, 311, and 320 will be dealt with after all property in those accounts has been retired.

3. The Department requests that Great Plains respond in reply comments to the Department's concerns about the proposed remaining life of Account 380.11

4. The Department requests that Great Plains describe in reply comments whether it petitioned for and received Commission approval of the transactions booked in Account 390 related to the construction of the new administrative building and the sale of the business and service structures described above.

5. Great Plains' response seems to support the retention of these two accounts' current gross salvage and cost of removal rates. The Department requests that Great Plains clarify its position in reply comments.

6. The Department requests that Great Plains clarify the reasons for the proposed gross salvage and cost of removal rates for Accounts 305 and 311.

/jl

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. G004/D-12-565

Dated this **2nd of January, 2013**

/s/Sharon Ferguson

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