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August 27, 2014

Burl W. Haar
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-14-455

Dear Dr. Haar:

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 2014.

The petition was filed on May 30, 2014. The petitioner is:

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

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** MERC's proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2014 including MERC's proposals to:

- establish an average service life of fifteen years and a negative one percent net salvage rate for Automated Meter Reading (AMR) Devices, Account 381.2; and
- hold the depreciation rate at 8.36 percent for Transportation Equipment, Account 392.1 for 2014.

MERC's next annual depreciation study is due on or before June 1, 2015 and its next five-year study is due on or before June 1, 2017.

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

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/ja
Attachment

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-14-455

I. SUMMARY OF MERC'S PETITION

Pursuant to Minn. Stat. §216B.11 and Minn. R. 7825.0500 through 7825.0900, on May 30, 2014, Minnesota Energy Resources Corporation (MERC or the Company), filed a petition requesting the Minnesota Public Utilities Commission's (Commission) approval of the Company's annual review of its plant in service, depreciation reserve, and depreciation accruals. Further, MERC's petition was filed in compliance with the Commission's *Order* in Docket No. G007,011/D-13-442 which required the next annual review of depreciation rates to be filed on or before June 1, 2014 using December 31, 2013 balances.

In its petition, MERC requested that the proposed lives and rates be effective on January 1, 2014. The Company also requested:

- a 15-year life and a negative one percent net salvage for Account 381.2, Automated Meter Reading (AMR) Devices; and
- no change to the depreciation rate for Account 392.1, Transportation Equipment.

MERC proposed no other changes except for the one-year passage of time.[1] The net effect of the proposed changes is an increase in depreciation expense of $194,630.

[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 RL update schedules, MERC continues to apply the lives and depreciation rates. Petition, page 3-4.

II. DEPARTMENT ANALYSIS

The Department examined MERC's 2014 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, however, MERC indicated that:

> In Docket No. G001,G011/PA-14-107, MERC is seeking Commission approval to purchase Interstate Power and Light's natural gas distribution property. The Acquisition is being handled through a separate filing to the Commission and therefore the property was not incorporated in MERC's 2014 remaining life update. MERC is continuously making infrastructure improvements, however, MERC does not believe there will be any additions or retirements that will have a material effect on the depreciation rates.[2]

Consolidated lives and depreciation rates effective January 1, 2012 were approved by the Commission in Docket No. G007,011/D-12-533 (Docket No. 12-533).[3] Subsequently, MERC filed its 2013 depreciation study in Docket No. G007,011/D-13-442 (Docket No. 13-442). The Commission's October 15, 2013 *Order* in Docket No. 13-442 accepted MERC's filed Annual Review of Depreciation Rates Filing but did not require MERC to implement the rates and depreciation parameters contained therein and found that the approved

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[2] Petition, pages 5-6.
[3] MERC's last five-year depreciation study was filed in Docket No. 12-533. The Order in that docket required MERC to file its next five-year study on or before June 1, 2017.

depreciation rates and parameters from its five-year Depreciation Certification Study as approved in Docket No. 12-533 were reasonable and appropriate in place of a separate 2013 Annual Review of Depreciation Rates. Thus, the depreciation rates and parameters approved in Docket No. 12-533 were updated in the current filing.

B. DEPRECIATION PROPOSALS

1. AMR Devices

In its petition, MERC stated that "[r]ecent investments were made in Account 381.2 AMR Devices to purchase telemetry meters for interruptible customers."[4] MERC proposed to use an average service life (ASL) of fifteen years to begin with and a negative one percent net salvage rate.[5] The effect of MERC's AMR proposal would be an increase in MERC's 2014 depreciation expense of $27,487 as shown in Table 1 below:

Table 1[6]

12/31/13 Plant	ASL[7]	RL[8]	NSV[9]	Proposed Rate	Present Rate	Proposed Expense	Present Expense	Proposed Increase
$503,223	15.00	12.50	-1%	7.78%	2.32%	$39,162	$11,675	$27,487

Since MERC stated that "telemetry meters" were purchased, the Department questioned MERC's use of a subaccount to the Meters account (381) rather than Account 385 (Industrial Measuring and Regulating Station Equipment). MERC responded:

> Account 385 represents costs for large meter sets inclusive of piping, valves, filtration, and regulation. The meter itself is maintained in Account 381. AMR components are incorporated onto the meter and as AMR components are not expected to last the same life as the meter, a subaccount for AMR is appropriate. All Integrys companies that have AMR installed utilize subaccount 381.2 for this equipment, resulting in standardization and cost efficiencies.[10]

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[4] Petition, page 4.
[5] Petition, page 5. The Department notes that when the cost of removal exceeds the salvage proceeds, a negative net salvage occurs.
[6] MERC's Attachment 1, Statement 2A, Computation of Proposed Depreciation Rate.
[7] Average Service Life in years.
[8] RL in years.
[9] Net Salvage Value percentage.
[10] MERC's 7/30/14 e-mail in response to the Department's informal questions.

Thus, MERC's purchases were not meters, but rather AMR components. The Department concludes that MERC's use of Account 381.2 is appropriate since the subaccount is separate from Meters, Account 381, which has different life and salvage statistics, and Account 381.2 is the same account used by the Company's affiliates.

The Department notes that by the end of 2013, MERC invested $503,223 in telemetry equipment for interruptible customers.[11] The majority of the AMR devices were purchased in 2012 for $498,619.71.[12] The remaining amount of $4,603 was purchased in 2013.[13] However, MERC's tariffs require that the interruptible customer reimburse the Company "for all costs incurred by Company to install and maintain telemetry equipment or other related improvements."[14] In response to a Department inquiry about the investment in Account 381.2, MERC stated the following:

> Costs in Account 381.2 are comprised of purchases for Industrial Metering Units, development of the interface and programming to MERC's billing systems, and internal labor specifically for developing specifications, bidding equipment, project management and general projects support to implement the telemetry project. This account was credited with the amount received from the customers for the cost of the telemetry devices and the labor required to install the devices.
>
> MERC reviewed the tariff and agreed to bill the customers for all costs of telemetry equipment. This included the cost of the telemetry components, programing and installation. Our understanding of the costs of equipment did not include development of the interface and programing to our billing systems, working with vendors to create and deliver solutions and project management throughout the implementation across this customer group. The remaining costs are internal labor from various departments to handle all of the supporting needs beyond the actual equipment costs and installations.[15]

In sum, the investment in the account boils down to general start-up costs since the account is credited with the money received from customers for the cost of the AMR devices, including installation.

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[11] MERC's Attachment 1, Statement 1A, Plant Activity for 2013.
[12] MERC's Attachment 1, Statement 1A, Plant Activity for 2012.
[13] MERC's Attachment 1, Statement 1A, Plant Activity for 2013.
[14] MERC's tariff Nos. 5.11, 5.21, 5.25, and 5.51.
[15] MERC's 7/30/14 e-mail in response to the Department's informal questions.

In its petition, MERC stated that as "[a]pproved in MERC's 2012 depreciation study, the functional composite rate was used for this new account."[16] According to the Company, MERC used the 2012 composite rate for Distribution plant of 2.32 percent to calculate depreciation expense for 2013.[17] Beginning in 2014, MERC requested an ASL of 15 years based on the vendor's advice and a negative one percent net salvage rate:

> Subsequently, MERC contacted the vendor for these units to determine an appropriate average service life. With the vendor's experience and knowledge, a fifteen year life was recommended for these units. MERC agrees that an average service life of fifteen years is reasonable and will continue to monitor this account as additional historical data becomes available. The Company also recognizes that there will be removal costs associated with these units, but feels that it will be minimal.[18]

In comparison, CenterPoint Energy includes its residential and interruptible AMR equipment in account 397.2 , Communication Equipment, which has an approved ASL of 10 years and a negative nine percent salvage rate.[19] However, MERC does not have AMR devices for its residential customers. Thus, the Department concludes that CenterPoint Energy's life and salvage rate statistics may not be comparable to MERC's proposed ASL and salvage rate. Further, while MERC believes that a 15-year life is appropriate to begin with, future activity could result in changes over time.

Based on its analysis, the Department concludes that the proposed ASL of 15 years and a negative one percent net salvage rate are reasonable. Therefore, the Department recommends that the Commission approve an ASL of 15 years and a negative one percent net salvage rate for AMR Devices, Account 381.2.

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[16] The Commission's July 29, 2013 *Order Certifying Depreciation Rates and Methods with Modifications, Requiring Filing*, Docket No. 12-533 states:

> The Commission approves 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.

[17] Per telephone conversation with Company personnel on 7/23/14.

[18] Petition, pages 4-5.

[19] In its pending depreciation study, Docket No. G008/D-14-599, CenterPoint Energy requests approval to extend the ASL to 11 years which the Department does not oppose. At the end of 2012, CenterPoint Energy had approximately $45 million of AMR equipment.

2. Transportation Equipment

Transportation Equipment, Account 392.1, includes cars, trucks, and cargo vans.[20] MERC stated that the computation of the updated depreciation rate of 10.58 percent "indicated a significant depreciation rate increase was warranted for Account 392.1 Transportation Equipment."[21] However, MERC proposed no change to the current depreciation rate of 8.36 percent. The effect of MERC's Transportation Equipment proposal would be no change to MERC's 2014 depreciation expense and rate as shown in Table 2 below:

Table 2[22]

12/31/13 Plant	12/31/13 Reserve	ASL	RL	NSV	Proposed Rate	Present Rate	Proposed Expense	Present Expense	Proposed Increase
$4,630,386	$1,28,827	6.0	3.99	30%	8.63%	8.63%	$399,602	$399,602	$0

MERC acquired the Minnesota gas operations of Aquila, Inc. on July 1, 2006, which included numerous leased vehicles which were purchased by MERC. The Company reasoned that an increased depreciation rate was not appropriate for Account 392.1 given MERC's more recent purchases would reflect longer lives:

> Numerous vehicles in this account 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. MERC is expecting that more recent purchases will reflect longer lives and recommends no change to the current life and depreciation rate for this account. MERC continues to monitor additions and retirements in this account and may need to propose other adjustments to this account in future remaining life update filings.[23]

Recording the age of Aquila's vehicles as the year purchased rather than the actual age of the vehicles would have the effect of shortening the life of the Transportation Equipment account and increasing depreciation expense. On the other hand, holding the depreciation rate even would reduce the depreciation expense by approximately $90,000 and increase the remaining life (RL) by about one year from 3.99 to 4.89 years. In comparison to MERC's ASL of six years, CenterPoint Energy has an approved ASL of seven years.[24] Although MERC

[20] MERC's Attachment 2, page 16, shows Transportation Equipment account.
[21] Petition, page 5.
[22] MERC's Attachment 1, Statement 2A.
[23] Petition, page 5.
[24] In its pending depreciation study, Docket No. G008/D-14-599, CenterPoint Energy requests approval to extend the ASL to 8 years and reduce the salvage rate to 12 percent which the Department does not oppose.

expects longer lives for newer transportation equipment, it proposed to monitor the additions and retirements and propose other adjustments to this account in future RL update filings. The Department does not oppose this proposal at this time.

Based on its analysis, the Department recommends that the Commission approve MERC's proposal to hold the depreciation rate at 8.36 percent for Transportation Equipment for 2014.

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 3 below:

Table 3[25]

		Yr. End Plant	Reserve	Reserve
	Year	Balance[26]	Balance[27]	Ratio
		(a)	(b)	(c) = (b)/(a)
Consolidated	2013	$364,465,679	$157,877,434	43.32%
Consolidated	2012	$348,120,277	$154,533,080	44.39%
If Consolidated[28]	2011	$336,089,137	$151,311,921	45.02%
If Consolidated	2010	$323,540,130	$144,126,497	44.55%
If Consolidated	2009	$312,500,469	$136,846,497	43.79%

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 greater rate than the depreciation reserve and retirements of plant. As of the end of 2013, approximately 43.32 percent of MERC's plant was expensed.

At the end of 2012, CenterPoint Energy had approximately $21 million of Transportation Vehicles in Account 392.

[25] 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 2009-2011.

[26] Excludes amortized General Plant amounts since the accounts are not part of the RL study.

[27] To be consistent with the reserve balance in Table 3 for the previous year, the Reserve Balance excludes allocated Retirement Work in Progress (RWIP).

[28] 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 2009 through 2011.

III. RECOMMENDATION

Based on its review of MERC's RL update, the Department recommends that the Commission approve MERC's proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2014 including MERC's proposals to:

- establish an average service life of fifteen years and a negative one percent net salvage rate for AMR Devices, Account 381.2; and
- hold the depreciation rate at 8.36 percent for Transportation Equipment, Account 392.1 for 2014.

MERC's next annual depreciation study is due on or before June 1, 2015 and its next five-year study is due on or before June 1, 2017.

/ja

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-14-455**

Dated this 27th day of August 2014

/s/Sharon Ferguson

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