

June 1, 2021

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. E015/D-21-229

Dear Mr. Seuffert:

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

The Petition of Minnesota Power for Approval of its 2021 Intangible, Transmission, Distribution, and General Plant Depreciation.

The Petition was filed on April 1, 2021 by:

Debra A. Davey, Supervisor, Accounting
Minnesota Power
30 West Superior Street
Duluth, MN 55802
(218) 355-3714
ddavey@allete.com

The Department recommends that the Commission **approve Minnesota Power's Petition**. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/GEMMA MILTICH
Financial Analyst, CPA

GM/Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E015/D-21-229

I. INTRODUCTION

On April 1, 2021, Minnesota Power (the Company) filed its five-year depreciation study for the Company's transmission, distribution, and general/intangible plant (Petition) with the Minnesota Public Utilities Commission (Commission). Minnesota Power proposes multiple changes to its depreciation parameters as well as a change in the depreciation methodology for its general/intangible plant and a reallocation of the depreciation reserve within each functional plant category. Minnesota Power requests Commission approval to implement the proposed depreciation parameters as of January 1, 2021.¹ When applied to plant balances as of December 31, 2020, the proposed depreciation parameters result in a theoretical decrease in the Company's depreciation expense of approximately \$2.8 million per year, or about 4.45 percent, relative to the currently approved parameters.²

In addition, Minnesota Power provided information on the Company's 2017 – 2020 capital asset additions, retirements, transfers, and adjustments as well as the accruals to the Company's depreciation reserve.³

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed Minnesota Power's Petition to (1) determine whether the Petition complies with applicable statutes, rules, and Commission orders, (2) evaluate the reasonableness of the Company's proposed depreciation parameters and the resulting depreciation rates. The Department also examined Minnesota Power's 2017 - 2020 depreciation expenses accruals and capital additions, retirements, transfers, and adjustments, as these factors impact the development of proposed depreciation parameters. The following is a discussion the Department's review.

A. COMPLIANCE WITH DEPRECIATION STATUTES, RULES, COMMISSION ORDERS, AND CORRESPONDING FILING REQUIREMENTS

Minnesota Statutes, §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. Once certified by Commission order,

¹ Petition, page 3.

² Petition Appendix B: $(\$63,355,077 \text{ depreciation expense under current parameters} - \$60,536,002 \text{ depreciation expense under proposed parameters}) = \$2,819,075 \rightarrow (\$2,819,075 / \$63,355,077) = 4.45\%$.

³ Department Attachment 5.

utility depreciation rates remain in effect until the next certification. Minnesota Power filed its last five-year depreciation studies in 2017 under Docket No. E015/D-17-114 and in 2018 under Docket No. E015/D-18-226 for general/intangible plant accounts and transmission and distribution (T&D) plant accounts, respectively. The Company continues to use a straight line depreciation methodology.⁴

In determining the depreciable (useful) lives of their capital assets, utilities may choose to apply an average service life (ASL) or remaining life technique. When utilities opt to use the ASL technique to depreciate group property, the life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies.⁵ If companies use the remaining life technique for depreciating group property, the underlying life (the ASL) and salvage factors may not change, but depreciation rates must be updated annually to reflect the passage of time and the impact of plant activity, such as additions and retirements, on remaining lives.⁶ A utility is required to file annual depreciation updates when the remaining life technique is used, giving the Commission an opportunity to approve changes in depreciation rates.

1. Annual Depreciation Filings

Prior to 2008, Minnesota Power used a straight line depreciation method and ASL technique to calculate depreciation rates and expense for its T&D plant accounts; under this methodology, the Company filed T&D depreciation studies once every five years, as required by Minnesota Rule 7825.0600. In 2008, for its T&D plant, Minnesota Power began using a straight line depreciation method with a *remaining life* technique,⁷ the technique that requires depreciation rates to be updated annually, as the depreciation rates are not constant between five-year studies. In its September 4, 2018 *Order* in Docket No. E015/D-18-226, the Commission agreed with the Department's recommendations and required Minnesota Power to continue to conduct depreciation studies at least once every five years for its T&D plant accounts as well as to begin filing annual updates to its depreciation rates for these accounts to reflect changes that occur in between five-year studies. The Company submitted its 2019 and 2020 annual T&D plant depreciation updates as compliance filings in Docket No. E015/D-18-226 on March 27, 2019 and March 31, 2020, respectively.

⁴ Petition, page 6.

⁵ Under an ASL technique, a plant account's depreciation rate is solely a function of its estimated average service life and salvage rate: $\text{depreciation rate} = (1 - \text{salvage rate}) / \text{average service life}$.

⁶ Under a remaining life technique, a plant's depreciation rate is a function of the accounts' estimated average service life and the age-makeup of the property in each account. A change in the age-makeup of property in an account causes a change in the account's remaining life, even though the account's estimated average service life remains fixed. Additions of new property cause an account's remaining life to lengthen, as the account will become more heavily weighted toward "young" property that will be expected to remain in service for a relatively long time. Retirements of older property have the same effect. A change in an account's remaining life will result in a change in its depreciation rate. An expected average remaining life is developed for each vintage-year of plant based on the account's selected survivor curve. The remaining life for the account as a whole is the average of each vintage-year's expected remaining life, weighted by the dollar amount of property in each vintage year.

⁷ See Docket Nos. E015/D-08-422 and E015/D-13-252.

Minnesota Power has historically applied the ASL technique to its general/intangible plant, with the most recent corresponding five-year depreciation study approved in Docket No. E015/D-17-114. In response to a Department information request (IR), the Company explained that it is proposing in the current Petition to, going forward, apply a remaining life, rather than ASL, depreciation technique to its general plant accounts.⁸ The Department discusses the reasonableness of this proposed change later in the instant comments.

Because Minnesota Power is proposing to begin applying a straight line depreciation methodology with a remaining life technique for its T&D *and* general/intangible plant accounts, the depreciation rates for all of those accounts will change each year. Consistent with the Commission's September 4, 2018 *Order* in Docket No. E015/D-18-226, Minnesota Power agreed through an IR response that "...going forward, the Company should review its depreciation rates annually and file corresponding annual depreciation updates with the Commission to reflect the changes in its transmission, distribution, general, and intangible plant account remaining lives/depreciation rates."⁹ The Company's future annual T&D and general/intangible depreciation updates should be in the form of a petition, rather than compliance filing, with a unique docket number. The Department requests that Minnesota Power explain in reply comments whether it agrees to take this approach with its future annual depreciation updates for its T&D and general/intangible plant accounts.

2. *Five-Year Depreciation Study Schedule*

Minnesota Power filed its last T&D five-year depreciation study on March 27, 2018 in Docket No. E015/D-18-226. In its September 4, 2018 *Order* in the same docket, the Commission ordered the Company to file its next T&D five-year depreciation study no later than April 1, 2023. The Company filed its most recent general/intangible plant account five-year depreciation study on February 1, 2017 in Docket No. E015/D-17-114, and the Commission, in its June 8, 2017 *Order*, required Minnesota Power to file its next general plant account five-year depreciation study by May 1, 2022. The Company met these deadlines by filing the instant Petition, which combines Minnesota Power's T&D and general/intangible plant account studies, on April 1, 2021. Minnesota Power indicated that it plans to continue to file combined depreciation studies for its T&D and general/intangible plant accounts¹⁰ and that the Company will continue to conduct a corresponding comprehensive depreciation study for these accounts at least once every five years going forward.¹¹ The Department has no objection to the combination of Minnesota Power's T&D and general/intangible plant depreciation studies and notes that the five-year interval for comprehensive depreciation studies, as discussed in the Company's Petition, is consistent with Minnesota Rule 7825.0600.

In response to a Department IR, Minnesota Power explained that it filed the instant depreciation study earlier than required per Commission order primarily because (1) the Company placed over \$300 million-worth of Great Northern Transmission Line (GNTL) assets into service in 2020, thereby

⁸ Department Attachment 3.

⁹ *Id.*

¹⁰ Petition, page 2.

¹¹ Petition, page 5.

increasing the expected remaining and/or service lives of many of its transmission plant accounts and (2) Minnesota Power would like to incorporate Commission-approved depreciation parameters from the instant study into the Company's upcoming general rate case.¹²

3. Required Depreciation Schedules

In response to a Department IR, Minnesota Power provided, for each year since the Company's last depreciation certification, schedules that show:

- Plant in service: beginning and ending plant balances; additions and retirements; adjustments and transfers.
- Analysis of depreciation reserve: beginning and ending reserve balances; depreciation accruals and plant retirements; cost of removal and gross salvage value; transfers, adjustments and other debits (credits).
- Summary of annual depreciation accruals: plant balance; estimated net salvage; depreciation reserve; probable service life; depreciation accrual and rate.¹³

Minnesota Rule 7825.0700, Subpart 1, requires utilities to provide the schedules described in the above-bulleted list with each depreciation certification petition. The Department concludes that the Company provided the required information in its IR response.

Consistent with Minnesota Rule 7825.0700, Subpart 1, Minnesota Power should, going forward, provide the required plant, depreciation reserve, and depreciation accrual schedules in its T&D and general/intangible plant account depreciation certification petitions. The Department requests that Minnesota Power explain in its reply comments whether it agrees to, going forward, file with each depreciation certification petition the schedules required by Minnesota Rule 7825.0700, Subpart 1.

4. Major Future Additions and Retirements

Minnesota Rule 7825.0700, Subpart 2, requires that a utility provide a list of any major future additions or retirements to the plant accounts that the utility believes may have a material effect on the current certification results. In response to a Department IR, Minnesota Power explained that it has no such major future additions or retirements.¹⁴ The Department concludes that the Company provided the required information in its IR response.

Consistent with Minnesota Rule 7825.0700, Subpart 2, Minnesota Power should, going forward, include the required discussion around major future additions and retirements in its T&D and general/intangible plant account depreciation certification petitions. The Department requests that Minnesota Power explain in its reply comments whether it agrees to, going forward, include with each depreciation certification petition the discussion around major future additions and retirements required by Minnesota Rule 7825.0700, Subpart 2.

¹² Department Attachment 2.

¹³ Department Attachment 5.

¹⁴ Department Attachment 5.

5. Asset Retirement Obligation Reporting

The Commission's September 4, 2018 *Order* in Docket No. E015/D-18-226 required the Company to include in its next T&D plant five-year depreciation study filing an update on its accounting and reporting for the Accounting Standards Codification (ASC) 410-20 (formerly Financial Accounting Standard 143). ASC 410-20 addresses financial accounting for obligations associated with the retirement of tangible, long-lived assets and the associated retirement costs. Minnesota Power provided the required discussion of its asset retirement obligations (AROs) on pages 5 - 6 of its Petition.

An ARO is a legal obligation associated with the retirement of a tangible, long-lived asset. The legal obligation may result from an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. The Financial Accounting Standard Board's ASC 410-20 establishes the accounting standards for the recognition and measurement of an ARO liability.

In the instant Petition, Minnesota Power indicated that there have been no changes in its accounting for AROs since the Company's last report on AROs in its initial filing in Docket No. E015/D-18-226. The Company explained that its entire T&D network must be viewed as a single asset, which the Company intends to operate indefinitely. According to Minnesota Power, because no retirement or settlement date can be determined for its T&D network, the recognition of any obligation shall be deferred until an actual settlement date can be determined, as allowed by ASC 410-20. The Company also stated that at this time it has no AROs pursuant to either its easement agreements with private landowners or its assets located on public rights-of-way. Certain of Minnesota Power's easements require removal of its facilities if they interfere with mining and mineral rights, however, no retirement obligation is created until the Company is asked to remove those facilities.¹⁵

The Department concludes that Minnesota Power has reasonably met the ARO reporting requirement and recommends that the Commission require the Company to include an update on its reporting and accounting for ASC 410-20 in its next T&D and general/intangible plant five-year depreciation study.

6. Department's Overall Conclusion on Compliance with Filing Requirements

The Department concludes that Minnesota Power's Petition, combined with the Company's responses to Department information requests, complies with the applicable statutes, rules, Commission orders, and the corresponding filing requirements.

¹⁵ Petition, pages 5 – 6.

B. MINNESOTA POWER'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.

Minnesota Power worked with a consulting firm to develop the instant depreciation study (Study). The Study applied the straight line, broad group, remaining life system to calculate the depreciation parameters proposed in the Petition.¹⁶ As noted earlier in the instant comments, the Company's proposals would transition its general/intangible plant accounts from an ASL to a remaining life technique, a change that would align the general/intangible plant depreciation methodology with that of the T&D plant. Minnesota Power explained that applying a remaining life, rather than ASL, technique to its general plant accounts is preferable, because the remaining life technique has self-correcting mechanism to manage depreciation reserve.¹⁷ That is, the remaining life depreciation technique amortizes the differences between theoretical and actual depreciation reserve over the relevant remaining life, allowing for an automatic true-up of these reserve differences over time.¹⁸ The Department has no objection to Minnesota Power's proposed depreciation methodology change, and we recommend that the Commission approve the proposed transition from the ASL to the remaining life technique for Minnesota Power's general/intangible plant accounts.

As applicable, the Company assigns survivor curves,¹⁹ average service lives, and net salvage rates to its plant accounts; these parameters, in addition to ongoing plant activity, are the determining factors in arriving at an account's remaining life. Minnesota Power uses its assets' remaining lives in calculating the related depreciation expense and rate for a given account. Appendix II of Minnesota Power's Petition provides a detailed discussion of the Company's process for developing its depreciation proposals.

¹⁶ Petition, page 6.

¹⁷ Department Attachment 3.

¹⁸ Actual depreciation reserve is based on previously approved, historical depreciation rates and asset lives; this amount is the depreciation reserve actually recorded, or booked, by the Company. Theoretical depreciation reserve is calculated by applying the currently approved depreciation assumptions as if they had been in place since the beginning of the assets' useful lives. Ideally, differences between the actual and theoretical reserve would be small and become even smaller over the course of an asset's life.

¹⁹ Survivor curves refer to statistical curves that represent a probability distribution of the timing of asset retirements. Note, however, that Minnesota Power does not assign survivor curves to all accounts.

C. MINNESOTA POWER'S DEPRECIATION PARAMETER PROPOSALS

Based on the results of its Study and relevant input from the Company's engineers and operations personnel, Minnesota Power proposes to modify the depreciation parameters of multiple T&D and general/intangible plant accounts. The Company proposes an effective date of January 1, 2021 for these changes. The Department concludes that the proposed effective date is reasonable.

The proposed depreciation parameters result in a theoretical decrease in Minnesota Power's depreciation expense of approximately \$2.8 million per year, or about 4.45 percent, relative to the currently approved parameters. To arrive at this estimated decrease, the Company applied the currently approved and proposed depreciation parameters to plant balances as of December 31, 2020 and then compared these theoretical annual depreciation accrual results. These annual depreciation accrual estimates are theoretical, because neither represents the amount that will actually be booked by the Company, nor do they represent how Minnesota Power actually calculates depreciation expense throughout the year. The Company will likely book depreciation expense for 2021 that is larger than the estimates documented in Petition Appendix B, because the approved depreciation rates will likely, although not necessarily, be applied to 2021 plant balances that are higher than those at December 31, 2020. In addition, Minnesota Power calculates depreciation on a monthly basis throughout the year, rather than using a single, annual calculation.

The Department discusses the reasonableness of the proposed depreciation parameters in the following subsections.

1. *Average Service Life and Survivor Curve Determination*

As in past filings, the Company used Simulated Plant Record (SPR) analysis to estimate the average service life of most of the property accounts included in the Petition. The Company also used actuarial analysis to evaluate historical asset retirement in three accounts (*Account 368 - Distribution Line Transformers*, *Account 370 - Meters*, and *Account 3722 - Leased Property on Customer Premises-Lightning*) with sufficient vintage data and retirement activity.²⁰

SPR analysis is a method of estimating the ASL of a type of property and the dispersion, or variance, around that ASL. This analytical approach is used when data on plant additions and retirements by year is available, but data on the age of property at retirement is not. SPR analysis uses actual plant additions, an assumed ASL, and an assumed dispersion (represented by an Iowa Curve) to simulate annual plant balances for each property account. Those simulated plant balances are then compared to actual plant balances. A number of average service lives and dispersion patterns are tested for each account, and the retirement characteristics that produce simulated annual property balances that most closely match actual property balances are selected as an account's depreciation parameters and used to calculate the account's depreciation expense.

²⁰ Department Attachment 4.

Actuarial analysis is generally considered to be a more accurate method of estimating average service lives, relative to SPR, but Minnesota Power does not have the necessary vintage transactional data to use actuarial analysis for most of its plant accounts. Since converting to its current accounting system, the Company has vintage transactional data available from 2003 onward,²¹ but, as noted earlier in this section, Minnesota Power has collected a sufficient amount of data to perform actuarial analysis for just three of its accounts.

The Department reviewed Minnesota Power's SPR and actuarial analyses for all of its plant accounts and concludes that the proposed average service lives and survivor curves are supported by the analyses and are therefore reasonable.

2. Net Salvage Rate Determination

The Company studied its salvage experience for each T&D and general/intangible plant account by analyzing trends in average salvage rates over time. The Company studied moving two- to ten-year average salvage rates. Minnesota Power's analysis tended to rely more on the five- and ten-year rolling average salvage rates, which smooth out some of the year to year variances that are typical for salvage rates, rather than relying on shorter term averages. Generally, the Company was conservative in proposing changes to salvage rates; if an account's recent salvage experience differed significantly from the currently approved salvage rate, the Company proposed to adjust the salvage rate in the direction of trend, but not close the entire gap. The Department supports this approach, as even the ten-year moving averages are not necessarily a reliable representation of the salvage of an account.

The Department reviewed MP's salvage analysis and the data underlying it, and concludes that the Company's proposed net salvage rates are reasonable.

3. Remaining Life Determination

A plant account's remaining life is generally a function of its underlying ASL, survivor curve, and the age of property in the account. Even when an account's assumed ASL does not change, plant additions can lengthen the account's remaining life, as the new property will be expected to survive longer than older property in the account. Similarly, retirements of older property in an account can also lengthen the account's remaining life, as the weighted average age of the property in the account would decrease. Barring a change in the age-makeup of property in an account, its remaining life would be expected to decrease by approximately one year each year, so long as the account's ASL does not change.

In response to a Department IR, Minnesota Power provided the derivation of the proposed remaining life for each plant account shown in Petition Appendix A. The Department reviewed this information and concludes that the Company's proposed remaining lives are reasonable.

²¹ Petition, pages 6 – 7.

4. *Depreciation Rates*

The annual depreciation rate for a given plant account is a function of the original cost of the surviving plant balance, as well as the account's depreciation reserve, remaining life, and salvage rate. Based on our review of Minnesota Power's proposed depreciation parameters, the Department concludes that the corresponding depreciation rates are reasonable.

5. *Department's Overall Conclusion on the Proposed Depreciation Parameters*

The Department concludes that Minnesota Power's proposed depreciation parameters are reasonable, and we recommend that the Commission approve Minnesota Power's proposed average service lives, survivor curves, net salvage rates, remaining lives, and the corresponding depreciation rates, with an effective date of January 1, 2021.

D. PROPOSED DEPRECIATION RESERVE REALLOCATION

Depreciation reserve is recorded at the account level and represents the amount of depreciation expense, including any net salvage, that has been accrued thus far over the useful life of an asset or group of assets in an account.

In its Petition, Minnesota Power stated that "In the process of analyzing the Company's depreciation reserve, Alliance Consulting Group observed that the depreciation reserve positions of the accounts were generally not in line with the life characteristics found in the analysis of the Company's assets. To allow the relative reserve positions of each account within a function to mirror the life characteristics of the underlying assets, we reallocated the depreciation reserves for all accounts within each function."²² Importantly, this reallocation does not change the *total* depreciation reserve in each functional plant category, but instead redistributes the reserve amounts among the accounts within a functional plant category. According to Minnesota Power, it based the proposed reserved reallocation on the Company's expectations about future retirement and accrual patterns for its property, given current life and salvage estimates.²³

As noted earlier in the instant comments, the remaining life depreciation technique amortizes the differences between theoretical and actual depreciation reserve over the relevant remaining life, allowing for an automatic true-up of these reserve differences over time. While it is not unusual for a utility's theoretical and book depreciation reserve amounts to differ somewhat from one another, Petition Appendix E shows that the difference between these reserve amounts was substantial for many of the Company's accounts, with some accounts requiring multi-million-dollar reserve reallocations or reallocations that resulted in a change of more than 20 percent from the booked reserve amount. The following table highlights several accounts that were subject to relatively large reserve reallocations:

²² Petition, page 7.

²³ *Id.*

Table 1: Select Accounts with Substantial Proposed Reserve Reallocations²⁴

<i>Account</i>	<i>Absolute²⁵ Dollar Change in Depreciation Reserve</i>	<i>Percentage Change in Depreciation Reserve</i>
3540 – Towers & Fixtures	\$5,271,911	26%
3561 – Clearing Land & Rights of Way	\$1,974,952	25%
3620 – Station Equipment	\$13,854,728	38%
3640 – Poles, Towers and Fixtures	\$18,308,806	24%
3691 – Services Overhead	\$2,070,020	41%
3692 – Services Underground	\$2,371,167	32%
3700 – Meters	\$5,414,551	26%
3910 – Office Furniture & Equipment	\$4,499,846	779%
3926 – Transportation Equip, Vehicle Class 6	\$946,376	45%
3940 - Tools, Shop & Garage Equipment	\$1,804,359	102%
3973 – Communication Equip, Mobile Radio	\$1,776,105	24%
3976 – Communication Equip, Fiber Optic Cable	\$9,828,985	44%

In response to a Department IR, Minnesota Power explained that it has not specifically analyzed what factors caused its depreciation reserve positions to be generally out of line with the life characteristics of its assets. However, the Company stated that “[c]hanges in experienced lives (and changes in resulting retirement patterns), changes in the mix of assets within an account, changes in experienced removal cost and salvage, and changes in depreciation parameters and resulting accrual rates all contribute to the balance in the depreciation reserve and/or theoretical reserve position and can contribute to book versus theoretical reserve position differences.”²⁶ Minnesota Power also indicated that it believes that the “...adoption of the proposals in the current petition will mitigate future large differences between theoretical and book depreciation.”²⁷

The Department concludes that, because the Company’s proposed depreciation reserve reallocation is intended to align the depreciation reserve with the corresponding life characteristics of the assets in Minnesota Power’s plant accounts, the proposed reallocation is appropriate at this time. Therefore, we recommend that the Commission approve the proposed depreciation reserve reallocation, as shown in Petition Appendix E. However, as applicable, the Department intends to evaluate in the Company’s future depreciation petitions whether substantial reserve reallocations are becoming a chronic issue and, if so, whether modifications to the depreciation parameters or the methods used to predict the depreciation parameters are necessary to reduce the magnitude of these reallocations.

²⁴ Data in Table 1 retrieved from Petition Appendix E.

²⁵ All figures in Table 1 are shown as positive numbers, but please note that the proposed reserve reallocations, depending on the specific account, would either increase or decrease the account’s book depreciation reserve. Petition Appendix E contains additional details on the proposed reserve reallocations.

²⁶ Department Attachment 1.

²⁷ *Id.*

E. PRIOR YEAR PLANT ACTIVITY AND DEPRECIATION RESERVE

In response to a Department IR, Minnesota Power provided schedules with the plant activity, depreciation reserve, and depreciation accrual analyses for each year since the Company’s last depreciation certification petitions (Docket No. E015/D-18-226 for T&D plant and Docket No. E015/D-17-114 for general/ intangible plant). The following table summarizes certain plant-in-service activity and depreciation provisions between 2017 and 2020 and shows that, over time, the Company’s reserve ratio has fluctuated as it continues to invest in its system.

Table 2: Minnesota Power’s Plant Balance and Depreciation Summary 2017 – 2020²⁸

<i>Year</i>	<i>Plant Balance at December 31 (\$)</i> <i>A</i>	<i>Increase in Plant Balance (\$)</i> <i>B</i>	<i>Depreciation Reserve Balance at December 31 (\$)</i> <i>C</i>	<i>Increase in Depreciation Reserve Balance (\$)</i> <i>D</i>	<i>Depreciation Reserve Ratio</i> <i>E = C/A</i>
2020 ²⁹	1,977,217,248	352,161,800	691,654,186	1,991,766	35%
2019	1,625,055,448	39,900,119	689,662,420	20,927,460	42%
2018	1,585,155,329	44,372,355	668,734,960	33,942,225	42%
2017	1,540,782,974	N/A	634,792,735	N/A	41%

Table 2 shows that Minnesota Power’s depreciation reserve ratio fell from 42 to 35 percent between 2019 and 2020. This decrease in the reserve ratio can be primarily explained by the Company placing a substantial amount, over \$300 million,³⁰ of its GNTL assets into service in 2020.

III. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

The Department concludes that Minnesota Power’s depreciation proposals in the current docket are overall reasonable for accounting purposes. The Department recommends that the Commission:

- Approve Minnesota Power’s proposed average service lives, survivor curves, net salvage rates, remaining lives, and the corresponding depreciation rates, with an effective date of January 1, 2021.
- Require the Company to include an update on its reporting and accounting for ASC 410-20 in its next transmission, distribution, and general/intangible plant five-year depreciation study.

²⁸ Data in Table 2 data was retrieved from Minnesota Power’s response to Department IR 7, Appendix A of Minnesota Power’s initial filing in Docket No. E015/D-18-226, and Petition Appendix A.

²⁹ In conversations with Minnesota Power, the Company confirmed that the 2020 plant and reserve balances shown in Petition Appendix A are the correct balances, not those shown in the Company’s response to Department IR 7.

³⁰ Department Attachment 2.

- Approve the proposed transition from the average service life to the remaining life depreciation technique for Minnesota Power's general/intangible plant accounts.
- Approve the proposed depreciation reserve reallocation.

The Department also requests that Minnesota Power explain in reply comments:

- Whether the Company agrees to file future annual T&D and general/intangible depreciation updates in the form of a petition, rather than compliance filing, with a unique docket number.
- Whether the Company agrees to, going forward, file with each depreciation certification petition the schedules required by Minnesota Rule 7825.0700, Subpart 1.
- Whether the Company agrees to, going forward, include with each depreciation certification petition the discussion around major future additions and retirements required by Minnesota Rule 7825.0700, Subpart 2.

The Department emphasizes that the depreciation approvals in this docket are for accounting purposes only and are not for the purposes of ratemaking.

/ar



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

Docket Number: E015/D-21-229
Requested From: Minnesota Power
Type of Inquiry: Financial

Nonpublic Public
Date of Request: 5/5/21
Response Due: 5/17/21

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: 1
Topic: Depreciation reserve reallocation.
Reference(s): Page 7 of Minnesota Power's initial petition.

Request:

Minnesota Power stated that "Alliance Consulting Group observed that the depreciation reserve positions of the accounts were generally not in line with the life characteristics found in the analysis of the Company's Assets...To allow the relative reserve positions of each account within a function to mirror the life characteristics of the underlying assets, we reallocated the depreciation reserves for all accounts within each function."

- a) Please explain what factors caused/contributed to the depreciation reserve positions of Minnesota Power's accounts being generally out of line with the life characteristics of the Company's depreciable property.
- b) Were any of the observed differences between theoretical and book depreciation due to the Company systematically or non-systematically incorrectly recording depreciation expense/accumulated depreciation? Please explain your answer.
- c) Does Minnesota Power believe that its depreciation proposals in the current petition will help to prevent future drastic differences between the theoretical and book depreciation for the Company's property? Please explain your answer.
- d) If not included in the answer to part b) of this information request, what, if anything, will Minnesota do to prevent future drastic differences between the theoretical and book depreciation for the Company's property?

To be completed by responder

Response Date: 5/17/21
Response by: Dane Watson and Debbra Davey
Email Address: dwatson@alliancecg.net and ddavey@allete.com
Phone Number: 214-473-6771 ext. 10 and 218-355-3714



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

Docket Number: E015/D-21-229
Requested From: Minnesota Power
Type of Inquiry: Financial

Nonpublic Public
Date of Request: 5/5/21
Response Due: 5/17/21

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:	1
Topic:	Depreciation reserve reallocation.
Reference(s):	Page 7 of Minnesota Power's initial petition.

Response:

- a) There has not been analysis conducted to specifically respond to this question. The book reserve has been accrued using rates developed from various life and net salvage parameters approved by the Commission over the Company's history. Periodic depreciation studies can result in changes in life and net salvage that will occur over time. Changes in experienced lives (and changes in resulting retirement patterns), changes in the mix of assets within an account, changes in experienced removal cost and salvage, and changes in depreciation parameters and resulting accrual rates all contribute to the balance in the depreciation reserve and/or theoretical reserve position and can contribute to book versus theoretical reserve position differences.
- b) None of the observed depreciation reserve difference results from any process or systematic issue on the Company's books. The Company's books are reconciled internally and audited by the Company's external auditors. As stated in the depreciation study, page 14, the theoretical reserve represents the portion of the group cost that would have been accrued if current forecasts were used throughout the life of the group for future depreciation accruals. Given that the Company has not performed a reserve reallocation in the past and as noted in the response to part a., differences between book and theoretical reserve can and will occur.

To be completed by responder

Response Date: 5/17/21
Response by: Dane Watson and Debra Davey
Email Address: dwatson@alliancecg.net and ddavey@allete.com
Phone Number: 214-473-6771 ext. 10 and 218-355-3714



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

Docket Number: E015/D-21-229
Requested From: Minnesota Power
Type of Inquiry: Financial

Nonpublic Public
Date of Request: 5/5/21
Response Due: 5/17/21

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:

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Request Number:	1
Topic:	Depreciation reserve reallocation.
Reference(s):	Page 7 of Minnesota Power's initial petition.

Response (continued):

- c) Yes. The Company believes that the adoption of the proposals in the current petition will mitigate future large differences between theoretical and book depreciation. These proposals incorporate the current life and net salvage expectations, incorporate a remaining life approach (in addition to the reserve reallocation) and reflect the large addition to plant from the GNTL transmission line as discussed on page 22 of the depreciation study.

- d) The Company will continue to perform periodic depreciation studies at least once every five-years as directed by the Commission.

To be completed by responder

Response Date: 5/17/21
Response by: Dane Watson and Debbra Davey
Email Address: dwatson@alliancecg.net and ddavey@allete.com
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Type of Inquiry: Financial

Nonpublic Public
Date of Request: 5/5/21
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Assigned Analyst(s): Gemma Miltich
Email Address(es): gemma.miltich@state.mn.us
Phone Number(s): 651-539-1819

ADDITIONAL INSTRUCTIONS:

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Request Number: 2
Topic: Timing of current five-year depreciation study.
Reference(s): See the body of this information request.

Request:

The Commission's September 4, 2018 *Order* in Docket No. E015/D-18-226 requires Minnesota Power to file its next five-year depreciation study for its transmission and distribution plant accounts by April 1, 2023. The Commission's June 8, 2017 *Order* in Docket No. E015/D-17-114 requires Minnesota Power to file its next general plant depreciation petition by May 1, 2022. Since the Company has now combined these filings, it would follow that May 1, 2022, the earlier of the two due dates, would be the required due date for Minnesota Power's current five-year depreciation study.

- a) Please explain why Minnesota Power filed its current five-year depreciation study substantially earlier than required per Commission order (May 1, 2022)

Response:

- a) Minnesota Power filed its current five-year depreciation study earlier than required per Commission order (May 1, 2022) primarily due to over \$300 million of Great Northern Transmission Line (GNTL) assets being placed into service in 2020. The Great Northern Transmission Line is an approximately 220-mile 500-kV transmission line from near Grand Rapids, Minnesota, to the Canadian border. The GNTL transmission assets are expected to have longer lives than the existing transmission assets, and extending the lives decreases depreciation expense. Minnesota Power would like to incorporate the Commission approved depreciation rates from this study into its expected rate case filing by November 2021.

To be completed by responder

Response Date: 5/17/2021
Response by: Debbra Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714



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

Docket Number: E015/D-21-229
Requested From: Minnesota Power
Type of Inquiry: Financial

Nonpublic Public
Date of Request: 5/5/21
Response Due: 5/17/21

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:

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Request Number:	3
Topic:	Depreciation methodology for general plant accounts.
Reference(s):	See the body of this information request.

Request:

In its February 1, 2017 initial filing in Docket No. E015/D-17-114, the Company's last general plant account depreciation study, Minnesota Power stated that it "...reviewed its service lives, salvage rates, and depreciation rates for all general plant accounts except those subject to remaining life depreciation." In the Company's current five-year study, Minnesota Power indicated that it used a straight-line, broad group, remaining life system to compute the proposed depreciation rates.

- a) Please explain whether Minnesota Power's current five-year study represents a change in the depreciation methodology applied to the Company's general plant accounts. In this explanation, please specifically address, at a minimum, whether this is a change from the average service life to a remaining life methodology and why such a change is reasonable.
- b) Given that Minnesota Power's current five-year study uses a straight-line, broad group, remaining life system to compute depreciation rates, would Minnesota Power agree that, going forward, the Company should to review its depreciation rates annually and file corresponding annual depreciation updates with the Commission to reflect the changes in its transmission, distribution, *and* general plant account remaining lives/depreciation rates (this would be the annual review required per Minnesota Rule 7825.0600, subpart 2D)? Please explain your answer.

To be completed by responder

Response Date: 5/17/21
Response by: Dane Watson and Debbra Davey
Email Address: dwatson@alliancecg.net and ddavey@allete.com
Phone Number: 214-473-6771 ext. 10 and 218-355-3714



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Requested From: Minnesota Power
Type of Inquiry: Financial

Nonpublic Public
Date of Request: 5/5/21
Response Due: 5/17/21

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

ADDITIONAL INSTRUCTIONS:

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Request Number:	3
Topic:	Depreciation methodology for general plant accounts.
Reference(s):	See the body of this information request.

Response:

- a) The depreciation accrual rates the Company is proposing for general plant in this proceeding are a change from those used in prior cases. The prior depreciation rates were based on the average service life, whole life depreciation system. Alliance Consulting Group, after consultation with the Company, recommends a change to the remaining life depreciation system. As stated in the depreciation study, page 18, use of the remaining life depreciation system adds a self-correcting mechanism, which accounts for any differences between theoretical and book depreciation reserve over the remaining life of the group.
- b) Minnesota Power agrees that, going forward, the Company should review its depreciation rates annually and file corresponding annual depreciation updates with the Commission to reflect the changes in its transmission, distribution, general, and intangible plant account remaining lives/depreciation rates.

To be completed by responder

Response Date: 5/17/21
Response by: Dane Watson and Debbra Davey
Email Address: dwatson@alliancecg.net and ddavey@allete.com
Phone Number: 214-473-6771 ext. 10 and 218-355-3714



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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: Actuarial analysis versus Simulated Plant Record approach.
Reference(s): Minnesota Power's initial filing, Appendix 2.

Request:

- a) Please provide a list of the plant accounts to which Minnesota Power applied actuarial analysis (as opposed to Simulated Plant Record analysis) to evaluate the account average service life and survivor curve.

Response:

- a) The following accounts used actuarial analysis: Account 368 - Distribution Line Transformers, Account 370 - Meters, and Account 3722 - Leased Property on Customer Premises-Lightning.

To be completed by responder

Response Date: 5/17/21
Response by: Dane Watson
Email Address: dwatson@alliancecg.net
Phone Number: 214-473-6771 ext. 10



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

Information Request

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Nonpublic Public
Date of Request: 5/5/21
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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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Request Number: 7
Topic: Depreciation certification petition schedules.
Reference(s): Minnesota Rule 7825.0700.

Request:

- a) Per Minnesota Rule 7825.0700, Subpart 1, please provide, **for each year since the last certification(s)**, schedules that show:
- Plant in service: beginning and ending plant balances; additions and retirements; adjustments and transfers.
 - Analysis of depreciation reserve: beginning and ending reserve balances; depreciation accruals and plant retirements; cost of removal and gross salvage value; transfers, adjustments and other debits (credits).
 - Summary of annual depreciation accruals: plant balance; estimated net salvage; depreciation reserve; probable service life; depreciation accrual and rate.

Please provide these schedules in Excel spreadsheet format with all formulas intact.

- b) Per Minnesota Rule 7825.0700, Subpart 2, please provide a list of any major future additions or retirements to the plant accounts that Minnesota Power believes may have a material effect on the current certification results.

To be completed by responder

Response Date: 5/17/2021
Response by: Debbra Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714



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Phone Number(s): 651-539-1819

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Request Number: 7
Topic: Depreciation certification petition schedules.
Reference(s): Minnesota Rule 7825.0700.

Response:

- a) For the requested information please see the excel files noted below:
 - "IR-7 Attachment 1 – 2017 Details_GP Only"
 - "IR-7 Attachment 2 – 2018 Details"
 - "IR-7 Attachment 3 – 2019 Details"
 - And "IR-7 Attachment 4 – 2020 Details"

- b) Minnesota Power does not have any major future additions or retirements to the plant accounts that the company believes would have a material effect on the current certification results.

To be completed by responder

Response Date: 5/17/2021
Response by: Debbra Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

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. E015/D-21-229

Dated this 1st day of June 2021

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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_21-229_D-21-229
Debra A	Davey	ddavey@allete.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Electronic Service	No	OFF_SL_21-229_D-21-229
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_21-229_D-21-229
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	Yes	OFF_SL_21-229_D-21-229
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_21-229_D-21-229
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_21-229_D-21-229