GREAT PLAINS
NATURAL GAS CO.
A Division of MDU Resources Group, Inc.

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January 24, 2013

Dr. Burl Haar
Executive Secretary
Minnesota Public Utilities Commission
121 East Seventh Place, Suite 350
St. Paul, MN 55101

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

Dear Dr. Haar:

Great Plains Natural Gas Co. (Great Plains), a Division of MDU Resources Group, Inc., herewith electronically files its reply comments to the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) filed on January 4, 2013.

Great Plains' reply comments address the Department's request that Great Plains provide additional information regarding its depreciation study and requests that the Commission approve the depreciation rates filed by Great Plains. In addition, Great Plains' reply comments address the proposed effective date of the depreciation study rates.

If you have any questions regarding this filing, please contact me at (701) 222-7854, or Brian Meloy, at (612) 335-1451.

Sincerely,

/s/ Rita A. Mulkern

Rita A. Mulkern
Director of Regulatory Affairs

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

	)	
In the Matter of the 2012	)	**Docket No. G004/ D-12-565**
Natural Gas Five Year Depreciation	)	
Study	)	**Reply Comments of Great Plains**
	)	**Natural Gas Co.**
	)	

On June 1, 2012, Great Plains submitted its Five Year depreciation study reflecting 2011 plant in service and depreciation reserve balances. On January 4, 2013, the Department of Commerce, Division of Energy Resources (Department) filed its comments on Great Plains' filing. In its comments, the Department requests that in its Reply Comments Great Plains (1) discuss whether the depreciation reserves for the 2010 adjustment were included in the 2011 reserve balances, (2) describe how the remaining reserve balances in Account Nos. 305, 311 and 320 will be accounted for after all property in those accounts has been retired, (3) respond to the Department's concerns about the proposed remaining life of Account 380.11, (4) describe 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 associated with propane plant and equipment, (5) clarify its position with respect to the retention of gross salvage and cost of removal rates for Account Nos. 311 and 320; and (6) clarify the reasons for the proposed gross salvage and cost of removal rates for Account Nos. 305 and 311. Great Plains' responses to issues raised by the Department are provided below. In addition, Great Plains addresses the calculation of the depreciation rate for Account 390.30 and the effective date of the proposed depreciation rates.

I.

DISCUSSION

A. Depreciation Reserve Adjustment

In the Commission's Order in Docket No. G004/D-11-499, Great Plains was required to make an adjustment in 2011 to reflect a correction of the depreciation rates that were recorded in 2010. In its Comments, the Department noted that it was unable to tell whether Great Plains corrected the error as ordered. Great Plains did correct the error.

In particular, Great Plains recorded an adjustment of $57,852 in June 2011 to reflect the correct depreciation rates that had been authorized in Docket No. G004/D-09-608. Please see Attachment A for the detail of the adjustment by plant account.

B. Remaining Reserve balances in Account Nos. 305, 311 and 320

The Department requested that Great Plains clarify the accounting treatment of the transactions related to the retirement and sale of propane facilities in Montevideo, Redwood Falls and Marshall, Minnesota. Account Nos. 305, 311 and 320 relate to the propane facilities.

As of December 31, 2012 all propane facilities and equipment have been retired. The table below shows the applicable docket numbers for the retirement and sale of propane facilities.

	Retire	Sell
Redwood Falls	M-09-1262	PA-11-1008
Montevideo	M-10-1164	PA-11-1008
Marshall	M-11-1075	To be determined

The sale and dismantling of the Redwood Falls and Montevideo facilities are complete. Great Plains is in the process of evaluating the sale of the retired Marshall facility. As the Department noted in its comments on page 4, once the Marshall facility is disposed of, all propane facilities will be gone, however some accumulated reserve for depreciation will remain, whether positive (net cost of removal) or negative (net salvage).

Normally, pursuant to Commission policy, when there is a net gain on the sale of plant, the net gain is recorded in the reserve and reduces the reserve balance. However, the application of the Commission's policy is complicated in situations where, as is the case here, the removal of all propane facilities is complete. In such circumstances while there may be a net gain, there is no longer a reserve account to credit. Pursuant to FERC accounting, when the Marshall facility is disposed of and the final reserve amount is known Great Plains would record the net gain or loss in Account 421, Miscellaneous Non-operating Income[1]. Great Plains is open to

[1] Account **421, "Miscellaneous nonoperating income" provides:**
This account shall include all revenue and expense items except taxes properly includible in the income account and not provided for elsewhere. Related taxes shall be recorded in account 408.2, Taxes Other Than Income Taxes, Other Income and Deductions, or account 409.2, Income Taxes, Other Income and Deductions, as appropriate.

Commission guidance on other options for the remaining amount in the reserve account at the time the final reserve balance is known.

C. Proposed remaining life of Account 380.11

The Department expressed concerns about the proposed remaining life for Account 380.11, Plastic Services - PVC. The Department commented that the 2010 depreciation study technical update had a remaining life of 1.55 years, while the 2011 deprecation study has a remaining life of 7.50 years.

In addition, the Department noted that a recommendation of the remaining life that is tied to a replacement program is not a recommendation of the prudency of the recommendation and the Company will have to demonstrate the prudency of its replacement program in order to include the new plant in rate base.

In the course of preparing the December 31, 2006 Great Plains comprehensive depreciation study, which was the basis of the Account 380.11 depreciation parameters used in the December 31, 2010 technical update, an Iowa 30-R4 life and curve was estimated for the property group. At the time it appeared that the level retirement of the property category was accelerating at a far greater level than ultimately occurred. During the completion of the present depreciation

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Items
1. Profit on sale of timber. (See gas plant instruction 7C.)
2. Profits from operations of others realized by the utility under contracts.
3. Gains on disposition of investments. Also gains on reacquisition and resale or retirement of utilities debt securities when the gain is not amortized and used by a jurisdictional regulatory agency to reduce embedded debt cost in establishing rates. See General Instruction 17.
4. This account shall include the accretion expense on the liability for an asset retirement obligation included in account 230, Asset retirement obligations, related to nonutility plant.
5. This account shall include the depreciation expense for asset retirement costs related to nonutility plant.
6. The utility shall record in this account gains resulting from the settlement of asset retirement obligations related to nonutility plant in accordance with the accounting prescribed in General Instruction 24.

study, as of December 31, 2011, it was noted that the property is being changed out quickly, but the rate is somewhat slower that originally envisioned. Based upon the historical analysis through December 31, 2011, the average service life parameters for Account 380.11-PVC Services were estimated as an Iowa 40-R3 life and curve. The resulting remaining life under an Iowa 40-R3 life and curve for the property group is 7.98 years as opposed to the 7.50 year ARL based upon management's expectation that the property type will be retired within the next 15 year period. The results of the two separate approaches are relatively close. The Company routinely reviews and monitors the operations and conditions surrounding PVC pipe and believes that its planned change out period is safe, reasonable, and appropriate.

Great Plains agrees that approval of the remaining life of Account 380.11 does not constitute approval of its replacement program and will demonstrate the prudency of its investment in order to recover the investments in rate base.

D. Approval of transactions related to Account 390.

In its comments on page 6, the Department notes that Great Plains is required to seek Commission approval of sales and acquisitions of property valued at greater than $100,000 and requests Great Plains to describe whether it petitioned for and received approval of the transactions in Account 390, particularly those recorded in 2008.

In 2008, Great Plains constructed a new office building in Fergus Falls, Minnesota on an existing site of a former propane facility. Commission approval was not required for such construction. While Minn. Stat. § 216B.50 requires utilities to seek authorization from the Commission when it acquires, leases or purchases plant in an amount in excess of $100,000, the statute does not apply to the purchase of property to replace or add to plant by construction. As Great Plains new office building was constructed and replaced a leased building, Great Plains was not required to file for authority to construct the new office building.   In contrast, Great Plains did seek, and was granted, approval under Minn. Stat. § 216B.50 to sell the Marshall office building in Docket No. G004/PA-06-1590 as the sale of the building (*i.e.,* plant) met the requirements of Minn. Stat. § 216B.50.

E. Gross salvage and cost of removal rates for Account Nos. 311 and 320 and reason for the proposed cost of salvage and removal rates

In its Comments, the Department notes that Account Nos. 305, 311 and 320 currently have gross salvage rates of zero and the depreciation study proposes to increase the salvage value to ten percent for all three accounts, as well as change the cost of removal rate for Account 311 from a negative ten percent to zero. The Department requested that Great Plains clarify its treatment of these Accounts.

The 2010 depreciation study technical update included no salvage component for Account Nos. 311 and 320 while the proposed salvage rates based on the 2011 depreciation study reflected a 10 percent salvage value, based on history. At the time of the 2011 study, Great Plains was in the process of dismantling and selling the Montevideo and Redwood Falls facilities and had decided to retire the Marshall facilities.

As of December 31, 2012, all propane facilities have been retired and there is no property remaining in Account Nos. 311 and 320. Therefore the determination of the salvage component is now moot, as the plant is retired and the Company is no longer accruing depreciation expense on these accounts. The treatment of any net salvage or cost of removal remaining at the time the Marshall facility has been dismantled and sold will be determined at that time.

F. Account 391.30 Amortization rate

In its comments on page 8, the Department determined that Great Plains made an error in the calculation of the amortization rate for Account 391.30, Computer Equipment, Personal Computers. Great Plains respectfully disagrees.

Account 391.30 is one of the general plant accounts that is amortized rather than depreciated and Great Plains uses a four year life, or 25 percent amortization rate, where all equipment in a vintage year is amortized over the four year period and ceases the amortization when the plant is fully amortized. The alternative calculation of the amortization rate by the Department is based on the total plant account, while Great Plains is amortizing each vintage year separately and the use of a 25 percent amortization rate is necessary to amortize the assets over a four year period. The use of an amortization rate of 14.24 percent would result in lengthening the amortization period beyond the appropriate four year period.

G. Proposed effective date of depreciation rates

On June 1, 2012, Great Plains filed its 2012 depreciation study with the depreciation rates proposed to be effective January 1, 2012. This proposal was based on the expectation that such rates would be approved prior to the end of 2012 and the closing of Company books. However, Great Plains has now closed its books for 2012 and is not able to implement, in 2013, depreciation rates effective

January 1, 2012. Moreover, it would be administratively burdensome to retroactively recalculate depreciation expense for 2012 and make an adjustment for the entire year in 2013.

In addition, because the proposed depreciation rates would result in an approximate decrease in depreciation expense of $180,000, such an adjustment would likely distort the depreciation expense recorded in 2013, as Great Plains would be recording not only 2013 expense, but also the adjustment for 2012. Accordingly, Great Plains proposes that the depreciation rates be effective January 1, 2013, or such date that the Commission authorizes in 2013.

II.

SUMMARY AND RECOMMENDATIONS

Great Plains respectfully requests that the Commission (1) accept its reply comments and find that Great Plains has fully addressed the Department's comments; and (2) approve the depreciation rates filed by Great Plains.

Dated: January 24, 2013

Respectfully Submitted,

/s/ Rita A. Mulkern

Rita A. Mulkern
Director of Regulatory Affairs
Great Plains Natural Gas Co.
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400 N. 4th Street
Bismarck, ND 58501

GREAT PLAINS NATURAL GAS CO.
Depr. Retroactive Adjustment By Account

Subsidiary Account	Base DP Adjustment	COR DP Adjustment	Salvage DP Adjustment	Total Adjustment
30540	($98.70)			($98.70)
311140	1,144.59	77.91	77.91	1,300.41
32040	(5.84)			(5.84)
365240	(47.34)			(47.34)
367140	(6,455.34)	(717.29)		(7,172.63)
369140	(114.22)	(405.09)		(519.31)
374240	(2.78)			(2.78)
37640	1,602.34	2,376.24		3,978.58
37840	(197.71)	(358.68)		(556.39)
37940	345.44			345.44
38040	(12,128.65)	7,297.69		(4,830.96)
38140	1,156.38	429.51		1,585.89
38340	199.22			199.22
387140	(2.34)			(2.34)
39040	45,456.30			45,456.30
391540	-			-
392140	206.89			206.89
392240	6,541.97			6,541.97
396140	636.31			636.31
396240	10,651.73			10,651.73
Total For 2009	$48,888.25	$8,700.29	$77.91	$57,666.45