COMMERCE DEPARTMENT

December 18, 2017

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/D-17-118

Dear Mr. Wolf:

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

Minnesota Power's 2017 Remaining Life Depreciation Petition.

The petition was filed on February 1, 2017 by:

Debbra A. Davey
Supervisor, Accounting
Minnesota Power
30 West Superior Street
Duluth, MN 55802

The Department recommends **approval, with modifications,** and is available to respond to any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ Craig Addonizio
Financial Analyst

CA/ja
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E015/D-17-118

I. INTRODUCTION AND BACKGROUND

On February 1, 2017, Minnesota Power (MP or the Company) submitted its *2017 Remaining Life Depreciation Petition* (2017 Petition) to the Minnesota Public Utilities Commission (Commission), in Docket No. E015/D-17-118. The Company reviewed its remaining lives for its thermal, hydroelectric, and wind production facilities, and proposed one-year passage-of-time adjustments for all of its generation facilities except for Boswell Energy Center's (Boswell) four generating units and its common facilities. Currently, the four generating units at Boswell are treated as separate depreciable units, and each has its own approved remaining life. Boswell's common facilities are depreciated as a separate depreciable entity, and its remaining life is calculated as an average of the remaining lives of the four generating units. In its 2017 Petition, MP proposed to consolidate all four of Boswell's generating units and its common facilities into a single depreciable entity, and set the remaining life of the consolidated Boswell facility based on an expected retirement year of 2050, 34 years as of January 1, 2017. Finally, for MP's two general plant accounts for which it uses remaining-life depreciation, the Company proposed one-year passage-of-time remaining life adjustments for both accounts, and a decrease in the net salvage rate for Account 3928 Aircraft-Fixed Wing from 75 percent to 16.4 percent. As discussed in greater detail below, MP subsequently indicated in a response to a Department Information Request (IR) that it now believes the appropriate salvage rate is zero.

On March 2, 2017, the Minnesota Office of the Attorney General – Residential Utilities and Antitrust Division (OAG), filed comments responding only to the Company's proposal to consolidate and extend the life of Boswell's generating units and common facilities.

On March 13, 2017, MP filed Reply Comments in response to the OAG's Comments.

On April 10, 2017 the Department filed a letter requesting an extension of time until November 27, 2017 to file comments in this Docket.

On April 18, 2017 MP filed a letter agreeing to the Department's extension request.

On June 29, 2017, MP filed a supplement (the June Supplement) to its 2017 Petition amending the proposed remaining life for the Hibbard Renewable Energy Center (Hibbard) from 8 years as of January 1, 2017 to 13 years.

For the Company's generation plant, proposed depreciation parameters will result in a reduction to depreciation expense of $27.2 million relative to currently-approved parameters.

For the Company's general plant, the change in the salvage rate for Account 3928 will result in an increase in depreciation expense of approximately $2.3 million.

II. DEPARTMENT ANALYSIS

A. DEPRECIATION RULES

Minnesota Statutes Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900 require public utilities to seek Commission certification of their depreciation rates and methods. Utilities must use straight-line depreciation unless the utility can justify a different method. Additionally, utilities must review their depreciation parameters and rates annually to determine if they are generally appropriate, and must file depreciation studies at least once every five years. Once certified by order, depreciation parameters remain in effect until the next certification.

As required, MP employs a straight-line depreciation method, and files annual depreciation studies for its generation assets. Thus, MP has complied with these requirements for its production plant accounts.

As discussed in greater detail below, however, MP changed its depreciation rate for Account 3928 Aircraft-Fixed Wing during 2016 to a rate that is different than the rate approved for 2016 in Docket No. E015/D-16-797 (the 2016 Depreciation Docket).

B. PRIOR COMMISSION ORDERS AND RELATED PROPOSAL

1. Comparison of Depreciation Remaining Lives and Resource Planning Remaining Lives

a. Comparison in the 2017 Petition

The Commission's April 21, 2017 Order in the 2016 Depreciation Docket required the Company to include "a comparison of the remaining lives used in its depreciation filing and current resource plan and an explanation of any differences." MP did so on pages 11-14 of its 2017 Petition. As a result of MP's amendment to its proposed remaining life for Hibbard, Boswell is the only generating facility for which there is a significant difference between the remaining life used for depreciation and the remaining life assumed in the Company's most recent integrated resource plan in Docket No. E015/RP-15-690 (the 2015 IRP).

The operational lives of the four Boswell Units in the 2015 IRP range from 2018 to 2035, while, for depreciation purposes, MP proposed to consolidate all of the plant installed at Boswell into a single depreciable entity, and extend the life of that entity to 34 years, reflecting an expected retirement date of 2050. The current depreciation lives for the units range from 2024 to 2035.

The Department discusses the differences in the depreciation remaining lives and the IRP remaining lives for Hibbard and Boswell in greater detail below.

b. Future Remaining Life Depreciation Filings

The Department recommends that the Commission require MP to continue to provide in future remaining life depreciation studies a comparison of the remaining lives used in its depreciation filing and the operational lives used in the utility's then-current resource plan, and an explanation of any differences.

Additionally, the Department notes that on page 11 of the 2017 Petition, MP indicated that Hibbard's depreciation remaining life is identical to the remaining life assumed in the 2015 IRP. As noted above, however, in its 2015 IRP, MP stated that "the operational life of [Hibbard] is projected to extend through the 15-year planning period for the 2015 Integrated Resource Plan" which runs through 2029. In DOC IR No. 2, the Department asked MP to clarify whether the 2015 IRP assumed Hibbard would operate through 2024 (as indicated in the 2017 Petition) or 2029 (as indicated in the 2015 IRP). In its response MP stated:

> In Minnesota Power's 2015 IRP Hibbard had a remaining life for depreciation of 2024. In the 2015 IRP Appendix C Minnesota Power stated it would be running the plant through 2029.[1]

The Department compares depreciation remaining lives with IRP remaining lives in order to allocate the capital costs of generating plants equitably over the plants' full operating lives in order to prevent, or at least minimize, intergenerational inequity. If a plant is fully depreciated before it is retired from service, ratepayers in the last years of the plants life will benefit from the operation of the plant without contributing to its capital costs. In other words, a later generation of ratepayers will effectively be subsidized by an earlier generation. Similarly, if a plant is retired before it is fully depreciated, ratepayers in the years following the plant's

[1] See Attachment 1.

retirement will pay for capital costs of a plant from which they do not derive any benefit, effectively subsidizing an earlier generation of ratepayers.

Therefore, the relevant comparison is between a plant's depreciation remaining life and its expected operational life as determined in an IRP, not between its depreciation remaining life and the depreciation remaining life assumed in the IRP, as MP stated in its response to DOC IR No. 2. In future remaining life depreciation petitions, MP should compare the depreciation remaining lives of its plants with the plants' operational lives from its then-current integrated resource plan.

2. Supplemental Depreciation

The Commission's Order in Docket No. E015/D-12-378, MP's 2012 Depreciation Docket, required MP to record supplemental depreciation expense over a 36-month period, from September 2013 through August 2016. Appendix B to the 2017 Petition reports supplemental depreciation recorded during 2016. The Department reviewed Appendix B and concludes that MP has reasonably complied with the Commission's Order. Because MP has now recorded all supplemental depreciation expense required by the Commission in the 2012 Depreciation Docket, no future reporting requirements are necessary.

C. REASONABLENESS OF PROPOSED DEPRECIATION PARAMETERS

1. Remaining Lives

As noted above, MP proposed that the remaining lives of all facilities other than Boswell and Hibbard, as well as the two general plant accounts for which the Company uses remaining life depreciation, be reduced by one year to reflect the passage of time. The Department concludes that MP's proposal for all facilities other than Boswell is reasonable, and provides additional discussion regarding the remaining lives of Hibbard and Boswell below.

a. Hibbard

As noted above, in its 2017 Petition, MP proposed an eight-year remaining life for Hibbard, reflecting an expected retirement year of 2024. Based on its review in the 2017 Rate Case, however, the Department proposed a life extension for Hibbard for several reasons: [2]

- MP currently provides steam generated at Hibbard to Verso Paper under a long-term contract, and, according to MP, that contract is highly likely to be renewed;

[2] See Exhibit 628 at 29-34 (Campbell Direct) in the 2017 Rate Case.

- Hibbard is capable of providing retail utility service whether or not Verso Paper is operating;

- MP has done some recent capital additions to Hibbard; and,

- a depreciation life of 2029 matches the IRP life for Hibbard.

In Rebuttal Testimony filed June 29, 2017, the Company agreed with the Department's recommendation to extend Hibbard's remaining life, and stated that it would request a life extension in this Docket,[3] which it did in the June Supplement.

While the Report of the Administrative Law Judge in the 2017 Rate Case (ALJ Report) did not include any specific recommendations regarding Hibbard's remaining life, the ALJ Report did note the Company and the Department ultimately sought a depreciation life of 2029, and the ALJ Report *did not* include Hibbard's remaining life in its discussion of disputed issues.[4]

For the same reasons the Department recommended a life extension in the 2017 Rate Case, the Department concludes that MP's proposed life extension for Hibbard included in the June Supplement is reasonable.

b. Boswell

As noted above, in its 2017 Petition, MP proposed to consolidate all four of Boswell's operating units and its common facilities into a single depreciable unit, and extend the remaining life of that unit to 2050. The retirement years used to set each unit's remaining life in the 2016 Depreciation Docket are shown in the table below.

[3] See Exhibit 42 at 7 (Minke Rebuttal) in the 2017 Rate Case, also included with MP's June Supplement as Attachment 1.
[4] See Report at 59 and 63.

Table 1
Comparison of
Boswell Generating Units' Remaining Lives for
Depreciation and Resource Planning

Depreciable Segment	2016 Depreciation Docket	2015 IRP	2017 Petition Proposal
Unit 1	2024	2018	2050
Unit 2	2024	2018	2050
Unit 3	2034	2034	2050
Unit 4	2035	2035	2050
Common	2030	2030	2050

MP raised, but did not actually propose, the idea of consolidating and extending the life of the Boswell units in the 2016 Depreciation Docket, and stated that this issue would be best addressed in the Company's anticipated rate case.[5] On April 10, 2017, the Department filed a letter in this Docket stating is position that this proposal would be best addressed in MP's rate case, and requested an extension of time to file comments in this Docket until after the ALJ Report was issued in the 2017 Rate Case, which would allow the Department's comments to reflect a well-developed record in the 2017 Rate Case. MP subsequently agreed to the Department's extension request.[6]

The Department reviewed MP's proposal in the 2017 Rate Case, and based on its analysis recommended that the remaining lives for Boswell Units 1 and 2 be set at six years, based on a retirement year of 2022. For Boswell Units 3 and 4 and the common facilities, the Department recommended remaining lives of 34 years, based on a retirement year of 2050.[7]

The Department's recommendation for Boswell Units 1 and 2 is based on the fact:

- the units are not environmentally compliant;

- the units have not received significant capital upgrades; and

[5] See MP's September 30, 2016 Petition in the 2016 Depreciation Docket, page 3.
[6] See MP's April 18, 2017 Letter in this Docket.
[7] See Exhibit 628 at 34-45 (Campbell Direct) in the 2017 Rate Case.

- the Commission's Order in MP's IRP required Boswell Units 1 and 2 to be closed by 2022.

Additionally, MP announced recently that it plans to close Boswell Units 1 and 2 by 2018. Thus, MP is choosing to close the two units before the date set by the Commission. The Department reviewed the revenue requirement impact associated with setting retirement years of 2018, 2022, and 2050 ($57.0 million, $42.5 million, and 36.5 million, respectively, per year on a total-company basis), and concluded that setting depreciation life of 2022 provides the right balance of recovering the plants' costs generally from the ratepayers who receive the benefits of the plant while still resulting in reasonable rates for ratepayers.

The Department's recommendation for Boswell Units 3 and 4 and the common facilities is based on the fact that MP has recently made significant capital upgrades which included addressing environmental compliance. The Department concluded that it seems reasonable that Boswell Units 3 and 4 and the common facilities could operate until 2050.[8]

The ALJ in the 2017 Rate Case agreed with the Department's recommendation for Boswell Units 1 and 2, and recommended that they be depreciated through 2022.[9] The ALJ did not, however, agree with the Department's recommendation for Boswell Units 3 and 4 and the common facilities. The ALJ recommended those facilities be depreciated through 2035, the current maximum approved life of any of the three units.

The Department maintains its position from the 2017 Rate Case and recommends that the Commission approve remaining lives of 6 years for Boswell Units 1 and 2, and 34 years for Boswell Units 3 and 4 and the common facilities.

2. Salvage Rates

a. Generation Plant

MP's proposed salvage rates are based on the same decommissioning cost estimates used in the 2016 Depreciation Docket. However, on October 26, 2015, the Commission issued its Order in Docket No. E,G999/CI-13-626, *In the Matter of a Commission Inquiry into Decommissioning Policies Related to Depreciation*. In that Order, the Commission required MP to stop using decommissioning probabilities when it files its next rate case, or by January 1, 2020, whichever comes first. In its 2017 Rate Case, MP complied with the Commission's Order,[10] and the Company's 2017 Petition includes salvage rates calculated with decommissioning probabilities

[8] See Exhibit 628 at 42 (Campbell Direct) in the 2017 Rate Case.
[9] See the ALJ Report at 69.
[10] See Exhibit 53 at 49 (Morris Direct) in the 2017 Rate Case.

of 100 percent. The elimination of decommissioning probabilities resulted in higher (i.e. more negative) salvage rates for all of MP's thermal production plants except for Laskin Energy Center, which already had a 100 percent decommissioning probability.

The Department has reviewed MP's proposed salvage rates for its generation plant and concludes that they are reasonable.

b. General Plant

As noted above, MP initially proposed to reduce the salvage rate for Account 3928 Aircraft-Fixed Wing from 75 percent to 16.4 percent, based on an estimated salvage value of $0.5 million. In its response to Department IR No. 8, the Company stated that in late 2016, it adjusted the salvage rate for Account 3928 from 75 percent to 16.4 percent, and adjusted it again in May 2017 from 16.4 percent to zero.[11]

The Department has several concerns related to MP's treatment of Account 3928. First, in the 2016 Depreciation Docket, MP requested, and the Commission approved, a salvage rate of positive 75 percent for Account 3928. Minnesota Rule 7825.0900 states:

> Utilities shall petition the commission for certification of depreciation rates and methods as prescribed by the commission's rules of practice for petitions…. Depreciation rates and methods, once certified by order, are binding on all future rate proceedings and will remain in effect until the next certification or until the commission shall determine otherwise.

MP did not request certification of the 16.4 percent salvage rate, and the Commission did not certify it. MP therefore did not have the authority to adjust the salvage rate from 75 percent to 16.4 percent in 2016. Additionally, while the depreciation rates approved in this Docket will be effective January 1, 2017, the Commission has not certified a zero salvage rate for Account 3928, meaning MP did not have the authority to make its second adjustment to the Account's salvage rate.

Additionally, MP has not provided adequate support for either the 16.4 percent salvage or the zero salvage rate. In its response to Department IR No. 8, the Company explained that the $0.5 million salvage estimate was based on an estimate from the chief pilot, but provided no analysis supporting that estimate. With respect to the proposed salvage rate of zero, MP stated:

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[11] See Attachment 2. See also Appendix A-2, page 35, to MP's Petition, which reports a 2016 salvage rate of 16.4 percent.

> Due to the decision to exclude these costs from MP's current rate case and uncertainty regarding the salvage value (the chief pilot noted that the salvage will decrease as the December 2017 date gets closer), in May 2017 the salvage value was set to zero. MP filed its 2017 remaining life depreciation filing on February 1, 2017. Account 3928 Aircraft-Fixed Wing will be fully depreciated in December 2017.

The Department does not agree that these factors imply that a salvage rate of zero is reasonable.

All of these issues, however, may be moot. In its 2017 Rate Case, MP chose to forego recovery of corporate aircraft expense,[12] and the Company confirmed in its responses to Department IR Nos. 7 and 8 in this Docket that no depreciation expense for account 3928 was included in its 2017 Rate Case.[13] Therefore, even if MP gets any positive salvage value from the sale of its aircraft, ratepayers will not be harmed from having included too high a level of depreciation expense in base rates.

The only avenue by which ratepayers could be negatively impacted is by missing out if there is a significant gain on the sale of the aircraft, which was purchased with ratepayer funds. MP's decision to exclude aircraft expense from the 2017 rate case notwithstanding, ratepayers were required to bear a share of the depreciation expense in each of MP's two prior rate cases (Docket Nos. E015/GR-08-415 and E015/GR-09-1151), and therefore should perhaps participate in either the gain or the loss resulting from a sale.

Based on this above analysis, the Department recommends that the Commission approve MP's proposed salvage rate, but also require MP to make a compliance filing in this Docket if and when it sells its airplane that reports all of the journal entries associated with the sale, as well as MP's proposed treatment of any gain or loss. At that point, if there is any significant gain or loss on the sale, a reasonable treatment can be determined. Or, if MP ultimately decides not to sell its aircraft, it should report its plans to the Commission when it makes that decision.

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[12] See Exhibit 53 at 37-38 (Morris Direct) and Exhibit 82 at 19 (Podratz Direct) in the 2017 Rate Case.

[13] See Attachments 3 and 2. MP also provided additional supporting information in an email, included with these Comments as Attachment 4.

III. DEPARTMENT RECOMMENDATIONS

The Department recommends that the Commission:

1.) approve the proposed remaining lives and salvage rates (including the proposed life extension for the Hibbard Renewable Energy Center) for all of MP's production plants and general plant accounts, except for the remaining lives proposed for the Boswell Energy Center;

2.) approve remaining lives of six years as of January 1, 2017, for Boswell Units 1 and 2, based on a retirement year of 2022;

3.) approve remaining lives of 34 years for Boswell Units 3 and 4, based on a retirement year of 2050;

4.) require MP to include in future depreciation filings a comparison of the remaining lives used in its depreciation filing to the operating lives used in the Company's most recent integrated resource plan and explain any differences;

5.) require Minnesota Power to make a compliance filing to report either (a) the journal entries associated with the sale of its aircraft and the Company's proposed treatment of any associated gain or loss, or (b) MP's plans if it decides not to sell its aircraft;

6.) require MP to make its next depreciation filing on or before September 3, 2018 to establish depreciation parameters and rates to be effective January 1, 2018.

/ja

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	Docket No. E015/D-17-118	☐Nonpublic ☒Public
Requested From:	Debbra A. Davey, Minnesota Power	Date of Request: 3/1/2017
Type of Inquiry:	Financial	Response Due: 3/13/2017

Requested by: Craig Addonizio
Email Address(es): craig.addonizio@state.mn.us
Phone Number(s): 651-539-1818

Request Number: 2
Topic: Hibbard Renewable Energy Center (HREC) Remaining Life
Reference(s): Appendix A-1

Request:

On page 11 of MP's Petition, the Company indicates that the 2015 IRP remaining life for HREC is through 2024. However, Appendix C to MP's Sept. 1, 2015 IRP filing states that in the 2015 IRP, the operational life of HREC is assumed to extend through the 15-year planning period, which ends in 2029.

a. Please clarify HREC's 2015 IRP remaining life.
b. If the IRP assumes that HREC will operate through 2029, please explain why MP has not proposed a life extension for HREC.
c. Please explain whether MP has any plans to propose a life extension for HREC in the future.

RESPONSE:

2 a. In Minnesota Power's 2015 IRP Hibbard had a remaining life for depreciation of 2024. In the 2015 IRP Appendix C Minnesota Power stated it would be running the plant through 2029.

2 b. Minnesota Power is not opposed to extending the remaining life of Hibbard Renewable Energy Center to 2029.

2 c. See response to 2 b.

To be completed by responder

Response Date: March 13, 2017
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Docket Number:	Docket No. E015/D-17-118	☐Nonpublic ☒Public
Requested From:	Debbra A. Davey, Minnesota Power	Date of Request: 11/27/2017
Type of Inquiry:	Financial	Response Due: 12/7/2017

Requested by: Craig Addonizio
Email Address(es): craig.addonizio@state.mn.us
Phone Number(s): 651-539-1818

Request Number: **8**
Topic: Account 3928 Salvage Rate
Reference(s): Petition, page 15

Request:

Please provide support for the $500,000 salvage value for the Company's airplane.

RESPONSE:

MP's airplane's next heavy maintenance checks need to be completed in December 2017. After this date, the aircraft is no longer legal to fly until these are completed. In late 2016, the decision was made not to complete these checks. Without these checks the salvage value of the plane decreased significantly, so in late 2016 we adjusted the salvage rate from 75% to 16.4%, which reflects a salvage value of $500,000. The estimate of $500,000 was an estimate from the chief pilot based on the required heavy maintenance checks not being completed in December 2017.

Due to the decision to exclude these costs from MP's current rate case and uncertainty regarding the salvage value (the chief pilot noted that the salvage will decrease as the December 2017 date gets closer), in May 2017 the salvage value was set to zero. MP filed its 2017 remaining life depreciation filing on February 1, 2017. Account 3928 Aircraft-Fixed Wing will be fully depreciated in December 2017.

Due to the above, in Minnesota Power's 2017 Remaining Life Depreciation Petition, the section titled General Plant Accounts 3900 and 3928 on page 15 should be revised to exclude all information regarding account 3928 Aircraft-Fixed Wing.

Response Date: November 28, 2017
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Docket Number:	Docket No. E015/D-17-118	☐Nonpublic ☒Public	
Requested From:	Debbra A. Davey, Minnesota Power	Date of Request:	11/27/2017
Type of Inquiry:	Financial	Response Due:	12/7/2017

Requested by: Craig Addonizio
Email Address(es): craig.addonizio@state.mn.us
Phone Number(s): 651-539-1818

Request Number: **7**
Topic: Account 3928 Depreciation Expense
Reference(s): 2016 Rate Case

Request:
What level of depreciation expense associated with Account 3928 Aircraft-Fixed Wing is included in the test year in MP's current rate case?

RESPONSE:

The depreciation expense associated with Account 3928 Aircraft-Fixed Wing included in the test year in MP's current rate case is zero dollars.

When the 2017 test year depreciation expense for MP's current rate case was prepared in mid-2016 the assumption was that the aircraft had a salvage rate of 75% and was fully depreciated by 2017 assuming that salvage rate.

In MP's current rate case the test year depreciation expense, plant in-service, and accumulated depreciation were adjusted to exclude amounts for account 3928 Aircraft-Fixed Wing and amounts for the Aircraft Hangar in account 3900. The adjustment to exclude the depreciation expense associated with these accounts from the test year depreciation expense in MP's current rate case is on MP Exhibit_(MAP) Supplemental Direct Schedule A-6, page 2 of 8, column 6, line 30. The adjustments to exclude the plant in-service and accumulated depreciation associated with these accounts from the test year plant in-service and accumulated depreciation in MP's current rate case are on MP Exhibit_(MAP) Supplemental Direct Schedule A-5, page 2 of 2, column 5.

Response Date: November 28, 2017
Response by: Debbie Davey
Email Address: ddavey@allete.com
Phone Number: 218-355-3714

Addonizio, Craig (COMM)

From:	Debbra Davey (ALLETE) <DDavey@allete.com>
Sent:	Monday, December 18, 2017 8:24 AM
To:	Addonizio, Craig (COMM)
Subject:	RE: Docket E015/D-17-118 - IR follow-ups

Hi,

You're welcome. Yes, you may attach the email as an attachment to your comments.

Thank you,

Debbie Davey
218-355-3714

From: Addonizio, Craig (COMM) [mailto:craig.addonizio@state.mn.us]
Sent: Thursday, December 14, 2017 3:41 PM
To: Debbra Davey (ALLETE)
Subject: RE: Docket E015/D-17-118 - IR follow-ups

[ALERT – External Email – Handle Accordingly]

Hi Debbie,

Thank you for these responses. May I please include this email as an attachment to my comments?

Craig

Craig Addonizio
Financial Analyst
651-539-1818
mn.gov/commerce
Minnesota Department of Commerce
85 7th Place East, Suite 280 | Saint Paul, MN 55101

COMMERCE DEPARTMENT

From: Debbra Davey (ALLETE) [mailto:DDavey@allete.com]
Sent: Wednesday, December 13, 2017 2:26 PM
To: Addonizio, Craig (COMM) <craig.addonizio@state.mn.us>
Subject: RE: Docket E015/D-17-118 - IR follow-ups

Hi Craig,

The aircraft asset, aircraft hangar assets, and any related expenses were removed from MP's current rate case in their entirety.

For 1. below the aircraft depreciation expense is NOT included in an indirect way via O&M. At the time MP's current rate case was prepared, the assumption for the aircraft was that the salvage rate was 75%. As a result of using that salvage rate the aircraft ended up being fully depreciated by the end of 2016, so there is no depreciation expense related to the aircraft included in O&M in MP's current rate case.

For 2. below this change was made in November 2016, retroactive to January 1, 2016. This change was not reflected in the rate case, however this would not have had a rate case impact because the aircraft asset, aircraft hangar asset, and any related expenses were removed from MP's current rate case in their entirety.

Please call if you'd like to discuss further.

Thank you,

Debbie Davey
218-355-3714

From: Addonizio, Craig (COMM) [mailto:craig.addonizio@state.mn.us]
Sent: Tuesday, December 12, 2017 9:33 AM
To: Debbra Davey (ALLETE)
Subject: Docket E015/D-17-118 - IR follow-ups

[ALERT – External Email – Handle Accordingly]

Good Morning Debbie,

I have a couple of follow-up questions to your responses to information requests 7-11 in Docket 17-118, related to the aircraft depreciation expense.

1. The Direct Testimony of Steven Devinck in MP's 2008 Rate Case (08-415), beginning on page 8, states that aircraft depreciation expense is (or at least used to be) allocated to MP via an O&M expense item. Therefore aircraft depreciation expense would be included in line 24 (Admin & Gen O&M Exp) of MP Exhibit __(MAP) Supplemental Direct Schedule A-6, rather than line 30 (Depreciation Expense).

Your response to IR 11 states that the $385,851 adjustment to Admin & Gen in the current rate case to remove aircraft expense does not include any aircraft depreciation expense.

Does that mean that MP **did not** remove aircraft depreciation expense from its O&M expense? Which would mean that aircraft depreciation expense is still included in an indirect way via O&M, just not in line 30 as "Depreciation Expense"? If so, please explain how much aircraft depreciation expense is included in O&M.

2. Your response to IR 8 says that account 3928's salvage rate was adjusted from 75% to 16.4% in "late 2016." When was that change made, and was it reflected in MP's rate case?

Please feel free to email or call if you have any questions. I will be away from my desk for large parts of today, so if you'd like to call it might be better to email me first to set up a time.

Thanks,
Craig

Craig Addonizio
Financial Analyst
651-539-1818
mn.gov/commerce
Minnesota Department of Commerce
85 7th Place East, Suite 280 | Saint Paul, MN 55101

COMMERCE DEPARTMENT

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-17-118

Dated this 18th day of December 2017

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	Yes	OFF_SL_17-118_D-17-118
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_17-118_D-17-118
Debbra A	Davey	ddavey@allete.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Electronic Service	No	OFF_SL_17-118_D-17-118
Ian	Dobson	Residential.Utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_17-118_D-17-118
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_17-118_D-17-118
Kimberly	Hellwig	kimberly.hellwig@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-118_D-17-118
Lori	Hoyum	lhoyum@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_17-118_D-17-118
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-118_D-17-118
Nathan N	LaCoursiere	nlacoursiere@duluthmn.gov	City of Duluth	411 W 1st St Rm 410 Duluth, MN 55802	Electronic Service	No	OFF_SL_17-118_D-17-118
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_17-118_D-17-118

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