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April 7, 2014

VIA ELECTRONIC FILING

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

Re: In the Matter of a Commission Inquiry into Decommissioning Policies Related to
Depreciation
Docket No. E,G-999/CI-13-626

Dear Dr. Haar:

Minnesota Energy Resources Corporation (MERC, the Company) submits these Comments in accordance with the Minnesota Public Utilities Commission's (Commission) March 6, 2014 Notice of Comment Period on Decommissioning Cost Investigation in the above referenced docket.

Please feel free to contact me at (612) 340-2881 if you have any questions regarding this matter.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

cc: Service List

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
David C. Boyd
Nancy Lange
Dan Lipschultz
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Commission
Inquiry into Decommissioning Policies
Related to Depreciation

Docket No. G-999/CI-13-626

Comments of Minnesota Energy Resources Corporation

In its March 6, 2014 Notice of Comment Period on Decommissioning Cost Investigation, the Minnesota Public Utilities Commission (Commission) requested that all utility companies provide information on the following topics:

- Provide an explanation of your company's plant decommissioning policies including the relationship of the policy to your company's depreciation expense and the calculation of the salvage portion of the depreciation expense.
- Provide a detailed explanation of how your company's decommissioning probabilities are determined.
- Explain the relationship between the decommissioning probability and the established life for the plant.
- Does your company use decommissioning probability in any other jurisdiction in which you operate?
- Provide any documentation on depreciation practices that provides support for the use of decommissioning probabilities.

Minnesota Energy Resources Company (MERC) provides the following comments in response to the Commission's Notice of Comment Period. MERC's comments reference both decommissioning and cost or removal and it is intended these terms are used interchangeably.

1. Provide an explanation of your company's plant decommissioning policies including the relationship of the policy to your company's depreciation expense and the calculation of the salvage portion of the depreciation expense.

MERC's policy is to accrue for its estimated future removal (decommissioning) costs to its reserve for depreciation through a component of its depreciation expense accruals. This provides for a reserve balance for estimated removal cost to offset its actual cost of removal as it is incurred. MERC's plant assets consist primarily of gas distribution property, sometimes referred to as mass property. For its mass property, MERC relies primarily on the analytical analysis completed during its depreciation study undertakings, along with industry trends and MERC's future expectations. MERC's depreciation studies are usually conducted every five years and provide MERC with updated analytics on its plant asset activity which in turn, can result in changes to each depreciable group's lowa Curve selection, Average Service Life, Remaining Life, and Net Salvage (inclusive of removal costs and salvage) Percent. In combination, these depreciation parameters are used to develop MERC's depreciation expense accruals and the resultant depreciation rate for each of its depreciable asset groups.

In the calculation of MERC's depreciation expense, the depreciation rate determined for each depreciable asset group from the depreciation study is bifurcated into a life (recovery of the plant investment less any salvage) rate and a cost of removal rate. The company's plant accounting software is used to separately calculate and maintain accumulated depreciation reserves for the asset investment as well as its associated cost of removal.

2. Provide a detailed explanation of how your company's decommissioning probabilities are determined.

For MERC's mass property assets, historical retirement activity is compared to salvage and removal costs incurred to retire those assets. This comparison is completed by year for each of MERC's depreciable asset groups, e.g. gas mains, gas services, etc. This analysis results in both a salvage and cost of removal percent for ongoing (or interim) retirements. For example, one year of a depreciable group's retirements of \$100,000 with \$5,000 in salvage and \$25,000 in cost of removal would equate to percentages of 5% and 25% respectively. When the two are combined, it results in a negative net salvage percent of 20%. This process is repeated for each year and for each depreciable asset group. When viewed over time, a depreciable asset group's activity could have numerous years of salvage and cost of removal percentages that could indicate trends. MERC's depreciation consultant reviews these results and incorporates their own informed judgment of industry-wide trends and any plans of the company that could impact future expectations, to recommend future removal accrual requirements.

If MERC were to have depreciable asset groups where removal costs for final decommissioning (final removal) is anticipated, MERC would also incorporate these expectations into its analysis for its overall net salvage requirements. Final decommissioning is an additional cost over and above the ongoing removal costs identified above. Final decommissioning is primarily associated with electric generation or gas production facilities. While these facilities have ongoing cost of removal activity, they may also require removal requirements for final closure. MERC's most likely course of action would be to obtain an engineering estimate for decommissioning based on a defined scope to remove the assets. This decommissioning estimate would be prepared using today's dollars. MERC would **not**

apply “probabilities” that would either “inflate” or “deflate” these costs for time or other expectations.

MERC does not fully understand the context for which this statement was made, however, on its face, MERC disagrees with the position, as summarized in Paragraph III.C. of the Commission’s July 31, 2013 Order Approving Remaining Lives, Requiring Cost Adjustments, and Initiating Decommissioning Cost Investigation in this docket:

Briefly, an asset’s adjusted plant in service reflects the cost a utility incurred for the asset plus its decommissioning costs – in sum, the cost needed to be recouped to compensate the utility for its known and anticipated investment. Ideally this figure remains constant throughout the asset’s service life and serves as a basis for calculating depreciation.

Decommissioning costs – both ongoing and final – do not remain constant. These costs increase or decrease over time. The position ignores this passage of time as well as changes in processes, technology, etc. that may impact the amount of cost of removal required for both ongoing and final removal. MERC would fully expect to be permitted to update its net salvage requirements in its depreciation study filings.

3. Explain the relationship between the decommissioning probability and the established life for the plant.

The determination of future decommissioning cost and the establishment of Average Service Lives and Remaining Lives of a depreciable asset group are two separate undertakings. In the end, each are brought together and used to formulate the company’s annual depreciation expense accrual and the resulting depreciation rates.

The establishment of a life for each depreciable group is completed by undertaking a depreciation study. Plant activity is analyzed to determine appropriate Iowa Curves and resulting Average Service Lives as well as Remaining Lives. Future depreciation accruals are determined by the cost of the assets plus net salvage less accumulated depreciation reserve. As MERC uses the Remaining Life technique, the future accruals are divided by the depreciable group’s remaining life to determine the annual depreciation expense accrual. As stated earlier, depreciation expense accruals, depreciation rates, and accumulated reserves are separately maintained for the asset cost and decommissioning requirements.

4. Does your company use decommissioning probability in any other jurisdiction in which you operate?

MERC uses the same process described above for plant assets located in other jurisdictions. MERC is part of Integrys Energy Group, Inc. Integrys’ other utility companies accrue for ongoing and final decommissioning costs in Illinois, Michigan, and Wisconsin.

5. Provide any documentation on depreciation practices that provides support for the use of decommissioning probabilities.

MERC follows the Federal Energy Regulatory Commission (FERC) Code of Federal Regulations, which states in Part 201, Gas Plant Instructions, Paragraph 10.B.2 Additions and

retirements of gas plant that “the cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.”

DATED: April 7, 2014

Respectfully Submitted,

DORSEY & WHITNEY LLP

By: /s/ Michael J. Ahern

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Attorney for Minnesota Energy
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AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin M. Stastny hereby certifies that on the 7th day of April, 2014, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of the attached Comments on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

/s/ Kristin M. Stastny _____
Kristin M. Stastny

Subscribed and sworn to before me
this 7th Day of April, 2014.

/s/ Alice Jaworski
Notary Public, State of Minnesota

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