



Mailing Address:
705 West Fir Avenue
P.O. Box 176
Fergus Falls, MN 56538-0176
(218) 736-6935

July 9, 2018

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

**RE: Reply Comments to the Comments of Minnesota Department of Commerce,
Division of Energy Resources, Docket No. G004/M-18-282**

Dear Mr. Wolf:

Great Plains Natural Gas Co. (Great Plains), a Division of MDU Resources Group, Inc., herewith electronically submits its Reply Comments in response to the Comments of the Department of Commerce, Division of Energy Resources (Department) submitted on June 27, 2018 in the above referenced docket related to Great Plains' Petition for Approval of Recovery of Updated Gas Utility Infrastructure Cost (GUIC) Adjustment.

Great Plains appreciates the Department's review and agrees with its recommendation that the Company's proposals are consistent with the applicable Minnesota statutes, past Commission Orders, and Great Plains' tariff. The Department has also recommended approval of Great Plains' proposed clarifications to its GUIC tariff.

In its Comments, the Department requested that Great Plains' reply comments address the extent to which the pipes being replaced are still being recovered in base rates through a return on rate base, income taxes on the rate of return, incremental property taxes, and incremental depreciation expense. The Department has also recommended that the Commission require Great Plains to replace its forecasted prorated Accumulated Deferred Income Tax (ADIT) balances with actual nonprorated ADIT balance in future GUIC rider filings. Great Plains has addressed each below.

Pipes Being Replaced

In response to the Department's request that Great Plains address the extent to which the pipes being replaced under the GUIC program are still being recovered in base rates, Great Plains confirms that it does not make an adjustment in its GUIC for the pipes or infrastructure being replaced. However, there are several reasons such treatment is necessary and appropriate:

- Great Plains utilizes mass asset accounting for all assets recorded in FERC Accounts 376 and 380. Therefore, the accumulated reserve associated with the individual sections of pipe being replaced is not tracked separately. Therefore, it is not possible to make an accurate adjustment to rate base to account for the pipes being replaced. It should be noted, however, that the assets being replaced under the GUIC would be significantly depreciated at the time of replacement, which would minimize the amount (if any) included in rate base.
- Upon the retirement of an individual asset in FERC Accounts 376 and 380, the original cost of the plant in service is removed and applied to the accumulated reserve balance with no resulting change in total rate base.
- Great Plains utilizes the group depreciation methodology for FERC Accounts 376 and 380 (mass assets). The depreciation rates are updated annually in the Company's technical updates along with a full depreciation study every five years. The depreciation rates are based on total balances in the plant in service and accumulated reserve by FERC Account and reflect additions and retirements that have occurred on a life to date basis.
- Great Plains does not include the cost of removal in its GUIC Adjustment.

For these reasons, Great Plains submits that its methodology is consistent with the requirements of the GUIC statute because Great Plains is only recovering its investment in needed infrastructure and customers are not paying more than the amount that would be recovered if the infrastructure replacement costs had been included in a general rate filing.

Prorated ADIT Balances

In its Comments, the Department states that based upon its review of Internal Revenue Service (IRS) Regulation Section 1.167(f)-1(h)(6), it continues to recommend that the Commission require Great Plains to replace its forecasted prorated ADIT balances with actual nonprorated ADIT balance for true-up purposes in future GUIC rider filings. The Department notes that this methodology is consistent with the methodology Otter Tail Power Company (Otter Tail) used in its Transmission Cost Recovery rider in Docket No. E017/M-16-374. While Great Plains appreciates the Department's goal of minimizing customer impacts related to the proration of accumulated ADIT, Great Plains has concerns with the Department's proposed solution.

Initially, Great Plains did submit the instant GUIC Adjustment under the methodology described in the Department's comments as employed by Otter Tail in Docket No. EO17/M-16-374. However, Great Plains' treatment of ADIT balances continues to evolve based on recent Private Letter Rulings issued by the IRS and discussions with external auditors.

These Private Letter Rulings and discussions with its auditors have led Great Plains to conclude that future filings will need to preserve the effect of the application of the proration methodology used in the projected test year calculation in order to comply with Section 1.67(J)-1(h)(6)(ii) of the IRS's Regulations which Great Plains believes requires the use of proration. With that said, Great Plains was recently made aware of a proposal set forth by Northern States Power Company, doing business as Xcel Energy, in its Transmission Cost Recover Rider in Supplemental Reply Comments submitted on May 25, 2018 in Docket No. E002/M-17-797. Xcel's proposal may provide an acceptable alternative treatment to addressing the ADIT proration issue. Great Plains, however, requires additional time to review the alternative approach proposed by Xcel and agrees to submit supplemental comments by July 20, 2018.

Great Plains respectfully requests that the Commission consider the Reply Comments expressed above and as will be further supplemented to address the ADIT issue. As indicated above, the Company maintains that the GUIC Rider as filed meets the requirements as outlined in the GUIC statute, is in the best interest of Great Plains' customers and should be approved.

If you have any questions regarding this filing, please contact Tamie A. Aberle at (701) 222-7856, or Brian Meloy, at (612) 335-1451.

Sincerely,

/s/ Tamie. A. Aberle

Tamie A. Aberle
Director of Regulatory Affairs

cc: Brian Meloy
Service List