COMMERCE DEPARTMENT

July 14, 2020

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. G004/D-20-511

Dear Mr. Seuffert:

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

In the Matter of Great Plains Natural Gas Company's 2020 Annual Depreciation Study.

The Petition was filed on May 29, 2020 by:

Travis R. Jacobson
Director of Regulatory Affairs
Great Plains Natural Gas Co.
400 North 4th Street
Bismarck, ND 58501

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve Great Plains Natural Gas Company's petition as modified**. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ GEMMA MILTICH
Financial Analyst, CPA

GM/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G004/D-20-511

I. INTRODUCTION

On May 29, 2020, Great Plains Natural Gas Company (Great Plains or the Company) filed its 2020 Annual Depreciation Study (Petition) with the Minnesota Public Utilities Commission (Commission). The Company prepared its Petition in conjunction with its consultant-preparer, Concentric Advisors. Great Plains requests Commission approval for the depreciation rates and parameters proposed in its Petition. The Company's proposed depreciation rates result in a composite rate of 4.36 percent, which reflects an increase of approximately 1 percent compared to the 2019 composite depreciation rate of 4.32 percent.[1] Great Plains seeks a January 1, 2020 effective date for its proposed depreciation rates.

In addition, Great Plains' Petition includes information about the Company's 2019 capital asset additions, retirements, transfers, and adjustments as well as an update on its PVC replacement program.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed Great Plains' Petition to (1) determine whether the Petition complies with applicable statutes, rules, and Commission orders, (2) evaluate the reasonableness of the Company's depreciation proposals, and (3) examine the 2019 capital asset additions, retirements, adjustments, and transfers, because these factors impact the development of depreciation rates. The Department also considered information provided by Great Plains on the Company's PVC replacement program. The following is a discussion of the Department's review.

A. COMPLIANCE WITH DEPRECIATION STATUTES, RULES, AND FILING REQUIREMENTS

Minnesota Statutes, Section 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. Great Plains filed its last 5-year depreciation study in 2017 under Docket No. G004/D-17-450 and continues to use the Straight Line depreciation method, as it has done in the past.

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[1] The 2019 composite depreciation rate of 4.32 percent was approved by the Commission in Docket No. G004/D-19-376. (4.36 – 4.32) / 4.32 = 0.009, or approximately 1%, rounded.

In determining the depreciable (useful) lives of their capital assets, utilities may choose to apply an average service life or a remaining life technique. When utilities opt to use the average service life technique to depreciate grouped property, the life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies. If companies use the remaining life technique to depreciate group property, the underlying life and salvage factors may not change, but the depreciation rates must be updated annually to reflect the passage of time and the impact of plant activity, such as capital additions and retirements, on remaining lives. Therefore, when a utility uses the remaining life technique, it is required to file annual depreciation study updates; these updates give the Commission an opportunity to approve changes in depreciation rates. Great Plains uses the remaining life technique, and the instant Petition provides the current year update as required.

In compliance with Minnesota Rule 7825.0700, Subpart 2, the Company reported that it does not anticipate any major upcoming capital additions or retirements that would impact the results of the instant depreciation study.[2]

Based on its review, the Department concludes that Great Plains has complied with the applicable statutes, rules, and filing requirements.

B. COMPLIANCE WITH PRIOR COMMISSION ORDERS

The Commission's March 21, 2007 *Order* in Docket No. G004/D-06-700 required that Great Plains' future depreciation and amortization studies be effective on January 1 of the year for which the study is performed, beginning with the depreciation study performed for year-end 2007. Great Plains has appropriately requested that its proposed depreciation rates be effective January 1, 2020 and be based on the December 31, 2019 plant and reserve balances.

Pursuant to the Commission's *Order* issued for the Company's 2018 annual depreciation study,[3] Great Plains provided the following information in its Petition, as applicable:

- An analysis of the accounts affected by the Company's PVC replacement program.[4]
- A summary of the additions, retirements, adjustments, and transfers for plant-in-service accounts and their associated accumulated depreciation accounts, as required by the Minnesota Rule 7825.0700.[5]
- The Minnesota-jurisdictional amounts for the Company's gas plant-in-service accounts.[6]

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[2] Department Attachment 5.
[3] Commission's February 22, 2019 *Order* in Docket No. G004/D-18-369.
[4] Petition, page 3-2.
[5] Petition, Tables 2 and 3.
[6] Great Plains' 2019 Jurisdictional Annual Report was filed on May 1, 2020 under Docket No. 20-04.

The Commission's *Order* for Great Plains' 2019 annual depreciation study[7] additionally required that the Company continue in its future deprecation filings to report the details of its building retirements in Account 390.0 – *General Structures and Improvements*,[8] as Great Plains did in its initial filing in Docket No. G004/D-19-376.

The Department concludes that the Company has complied with prior Commission orders, as applicable.

C. GREAT PLAINS' 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.

1. Statistical Determination of Asset Lives and Retirement Patterns

Through its work with consultants, Great Plains has assigned statistical survivor curves[9] to the majority of the Company's group property accounts.[10] To most of its capital accounts, the Company has also applied average service lives (ASLs),[11] which are based on the statistical retirement analyses associated with the property groups in different accounts.[12] While an account's ASL is normally consistent between annual depreciation updates, the grouped assets' *remaining* lives generally change each year, due to the impact of capital asset additions, retirements, transfers, and adjustments as well as the results of statistical analyses and the effects of the passage of time.

2. Depreciation Calculations

With a few noted exceptions, Great Plains depreciates its grouped assets using a Straight Line methodology and Average Life Group (ALG) procedure, applied on a remaining life basis. As applicable, the Company has used a depreciation software to calculate the ALG remaining life associated with each

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[7] Commission's January 15, 2020 *Order* in Docket No. G004/D-19-376.
[8] Great Plains indicated that it did not retire assets in Account 390.0 during 2019 (see Petition at the first page of the introductory letter).
[9] In the context of utility depreciation, the survivor curve assigned to a capital asset account represents a probability distribution pertaining to the remaining useful life of the group of assets included in the relevant account.
[10] At this time, Great Plains does not assign a survivor curve to accounts 375.0, 378.0, 381.0, and 383.0.
[11] The ASL is documented in the upper right corner of Section 5, *Detailed Depreciation Calculations*, of the Petition.
[12] For account 375.0 – *Distribution System Measuring and Regulating Station Structures*, the ASL is developed using the Life Span method; Great Plains uses the Life Span method exclusively for account 375.0. Great Plains' account 375.0 contains limited investments in distribution measuring and regulating station structures. See Great Plains' May 23, 2017 initial filing at page 4-17 in Docket G004/D-17-450.

vintage (i.e. year) in which the Company capitalized costs[13] under a given account.[14] To compute the *composite* remaining life of a group property account, each vintage's remaining life is weighted by the proportion of the costs capitalized in that vintage to the total amount capitalized in the account, and then the weighted vintage remaining lives are added together.[15]

Great Plains allocates its booked accumulated depreciation among the vintages included in the relevant accounts. The booked accumulated depreciation is allocated in proportion to a "calculated accumulated depreciation" (CAD)[16] factor; like the ALG remaining life computation, the CAD is an output of a depreciation software and is calculated for each capitalization year (vintage) under a given account.[17] Generally, a variance exists between each vintage's booked accumulated depreciation and CAD; the difference between these figures represents an estimate at a point in time, rather than a conclusive variance indicating a true surplus or deficit in booked accumulated depreciation.[18] Determining whether and to what extent the accumulated depreciation should be adjusted is based on the judgement of the relevant accounting professionals.

While the Company's underlying computations related to depreciation are complex, Great Plains continues to calculate its proposed depreciation rates in a manner that is typical of the Straight Line depreciation methodology: (total annual depreciation accrual / total original surviving capitalized cost included in the group property account).[19]

D. GREAT PLAINS' PROPOSED DEPRECIATION RATES AND PARAMETERS

In its Petition, Great Plains proposed depreciation rates, effective January 1, 2020, that would result in an overall composite rate of 4.36 percent, which reflects an overall increase of approximately 1 percent compared to the 2019 composite depreciation rate of 4.32 percent. While Great Plains did not explicitly state in its Petition that the Company is proposing initial depreciation parameters for Account

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[13] The remaining life figures are documented under the columns titled "ALG Remaining Life" in Section 5, *Detailed Depreciation Calculations*, of the Petition.
[14] The remaining lives for several accounts are based at least in part on other factors. For example, the remaining lives for accounts 376.0 – *Mains*, 380.0 – *Services*, 381.0 – *Meters and Meter Installations*, and 383.0 – *House Regulators* are impacted by the progression of Great Plains' ongoing PVC replacement program.
[15] *Calculation procedure*: SUM OF[(original surviving capitalized cost for vintage X / total surviving capitalized cost for all vintages under account Y) x (remaining life of vintage X)] = composite remaining life for account Y
[16] The CAD factor depends on a combination of the ASL, survivor curve, and salvage rate associated with the relevant group property account.
[17] See the CAD figures documented under columns titled "Calculated Accumulated Depreciation" in Section 5, *Detailed Depreciation Calculations,* of the Petition.
[18] *Calculation procedure for allocating booked accumulated depreciation to a given vintage in proportion to CAD:* (Total booked accumulated depreciation for account Y) x (CAD for vintage X / Total CAD for account Y) = amount of booked accumulated depreciation allocated to vintage X.
[19] See the annual depreciation accrual and original cost figures documented under columns titled "Annual Accrual" and "Original Cost," respectively, in Section 5 *Detailed Depreciation Calculations,* of the Petition.

393.0 – *Stores Equipment*, [20] it does not appear that Great Plains' last 5-year depreciation study established depreciation parameters for this particular account. Therefore, the Department reviewed the depreciation parameters presented in the instant Petition for Account 393.0 as if the Company were requesting to establish initial depreciation parameters for that account.

1. *Proposed Depreciation Parameters for Account 393.0 – Stores Equipment*

In its 2019 plant activity, the Company reported capitalization of $13,897[21] under account 393.0 – *Stores Equipment*, an account which, according to Great Plains' recent depreciation studies, has maintained a balance of $0 in capitalized costs over the last several years.[22]

In response to a Department information request, Great Plains noted that its proposed survivor curve and net salvage value for Account 393.0 is consistent with the industry's typical treatment of assets capitalized under this account.[23] The Department reviewed the depreciation parameters applied to Account 393.0 by several other regulated Minnesota utilities and found that the Commission previously approved Account 393.0 depreciation parameters for CenterPoint Energy Minnesota Gas (CenterPoint) that closely align with those requested by Great Plains in the instant Petition. Specifically, for CenterPoint's Account 393.0, the Commission recently approved a 15-SQ survivor curve, 0 percent net salvage rate, and 15-year probable service life, all of which closely match the Company's current proposals for Account 393.0.[24]

The Department concludes that the depreciation proposals for Account 393.0 are reasonable and recommends that the Commission approve Great Plains' Account 393.0 depreciation parameters, as detailed in Petition Table 1 and at Petition page 5-26. The Department expects Great Plains to include Account 393.0 in its next 5-year depreciation study, and, at that time, when a more comprehensive analysis of the account is available, we intend to closely examine the analyses and information that support the Account 393.0 depreciation parameters.

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[20] Great Plains stated that Account 393.0 "…had not previously been used at the time of the 2019 annual technical update." Petition, page 2-2.

[21] Petition Table 2, page 5-33.

[22] Great Plains did not report a positive capital balance for Account 393.0 in its last three depreciation studies in Docket Nos. G004/D-17-450, G004/D-18-369, and G004/D-19-376.

[23] Department Attachment 1.

[24] In its December 5, 2019 *Order* in Docket No. G008/D-19-307, the Commission approved CenterPoint's depreciation proposals, which included a 15-SQ survivor curve, 0% net salvage rate, 15-year probable service life, and 6.67% depreciation rate for Account 393.0 (see Exhibit 3, page 3 and Exhibit 6, year 2017 data in CenterPoint's May 7, 2019 initial filing for these depreciation parameters). In the instant Petition, Great Plains' has proposed a 15-SQ survivor curve, 0% net salvage rate, 15-year Average Service Life, and 6.90% depreciation rate for Account 393.0 (see Petition Table 1 and page 5-26).

2. Proposed Depreciation Rates

While composite depreciation rates can provide a succinct and consolidated view of Great Plains' depreciation proposals, the Company actually calculates depreciation rates at the individual account level. Therefore, we must consider the depreciation rates as they are presented in Table 1 of the Petition under the column titled "RATE." The following Department Table 1 summarizes by major plant category the composite depreciation rates proposed for 2020 compared to the corresponding rates approved in the Company's 2019 annual depreciation study, Docket No. G004/D-19-376.

Department Table 1: Summary of Approved and Proposed Depreciation Rates for Great Plains

Plant Group	**Composite Depreciation Rate Percentage (%)**		*Proposed Percentage (%) Increase (B – A) ÷ (A)*
	2019 Approved (A)	*2020 Proposed (B)*	
Transmission	2.08	2.10	<1
Distribution	4.66	4.68	<1
General	4.30	4.40	2
All Plant	4.32	4.36	<1

Department Table 1 shows that Great Plains' proposals would slightly increase the composite depreciation rate for each major plant group between 2019 and 2020. These proposed increases resulted from a combination of the effects of 2019 capital asset additions, retirements, transfers, and adjustments as well as the outcomes of the statistical analyses documented in Petition Section 5, *Detailed Depreciation Calculations*.

The Company's annual depreciation expense estimate for 2020 is based on the plant-in-service balances as of December 31, 2019. When applied to the December 31, 2019 plant-in-service balances, the newly proposed depreciation rates result in a theoretical total annual depreciation expense of $2,861,416.[25] This 2020 annual depreciation expense figure is a theoretical estimate, and the amount does *not* reflect the actual depreciation expense that Great Plains will book for 2020. The Company actually calculates depreciation expense on a monthly, not annual, basis, and it will likely book some combination of capital asset additions, retirements, transfers, and adjustments during 2020, so the actual annual depreciation expense for 2020 will differ from the theoretical estimate. For example, Great Plains booked an actual depreciation expense provision of $2,863,934[26] for 2019, and, as the Department would expect, this figure differs from the 2019 theoretical estimate of $2,639,460.[27]

[25] Petition Table 1, "Annual Accrual Amount."
[26] Petition Table 3, "Deprec. Provision," page 5-40.
[27] Table 1 of Great Plains' May 31, 2019 initial filing for its 2019 depreciation study in Docket No. G004/D-19-376.

In addition to examining the proposed depreciation rates, the Department verified in its review that Great Plains has not requested modifications to the previously established average service lives, salvage rates, or survivor curves assigned to the Company's accounts. Because the Petition is an annual depreciation update, rather than a 5-year comprehensive depreciation study, the Department concludes that it is appropriate for these depreciation parameters to remain unchanged.

The Department notes that, because depreciation expense is established in a general rate case, Great Plains' ratepayers will pay the currently established rates throughout 2020, regardless of the Company's booked 2020 depreciation expense amount. The Department emphasizes that the Commission's determination in depreciation proceedings are for accounting purposes only and are not a determination for purposes of rates.

Based on our review, the Department recommends that the Commission approve Great Plains' proposed depreciation rates, as outlined in Table 1 of the Petition.

E. GREAT PLAINS' 2019 DEPRECIATION CALCULATIONS AND THE CORRESPONDING CAPITAL ASSET ADDITIONS, RETIREMENTS, TRANSFERS, AND ADJUSTMENTS

Tables 2 and 3 of the Petition present a summary of Great Plains' 2019 capital asset additions, retirements, transfers, and adjustments as well as the Company's 2019 schedule of accumulated depreciation, respectively. The following sections highlight select information around these 2019 transactions.

1. Plant Balance and Depreciation Provisions Over Time

The following Department Table 2 summarizes the Company's plant-in-service and depreciation provisions between 2013 and 2019. We retrieved the data in Department Table 2 from Great Plains' prior year depreciation studies.

Department Table 2 shows that, over time, the Company's depreciation reserve (i.e. accumulated depreciation) ratio has generally trended downward, with notable reserve ratio decreases between 2014 and 2015 as well as between 2017 and 2018. These changes in Great Plains' reserve ratio are consistent with the Company's continued investment in its system and the especially significant plant-in-service increases reported for 2015 and 2018. Additionally, Department Table 2 demonstrates that the Company's annual booked depreciation expense has trended steadily upward, a pattern that is logical in the context of the increasing plant-in-service balances and composite depreciation rates.

Department Table 2: Great Plains' Plant-In-Service and Depreciation Provision Summary 2013 – 2019

Year	*Year-end Plant Balance ($)*	*Increase in Plant Balance ($)*	*Annual Depreciation Expense Booked ($)*	*Approved Composite Depreciation Accrual Rate*	*Year-end Depreciation Reserve Balance[28] ($)*	*Increase in Depreciation Reserve Balance ($)*	*Year-end Depreciation Reserve Ratio*
2019	68,515,615	4,495,793	2,863,934	4.32%	32,489,130[29]	2,000,551	47.42%
2018	64,019,822	8,403,694	2,540,871	4.31%	30,488,579	63,186	47.62%
2017	55,616,128	1,231,739	2,245,003	4.31%	30,425,393	1,273,926	54.71%
2016	54,384,389	6,029,130	2,073,206	3.81%	29,151,467	2,196,537	53.60%
2015	48,355,259	6,894,986	1,828,985	3.78%	26,954,930	993,921	55.74%
2014	41,460,273	2,984,892	1,515,365	3.65%	25,961,009	942,482	62.62%
2013	38,475,381	n/a	1,404,487	3.65%	25,018,527	n/a	65.02%

2. *Depreciation Expense Provision Calculations for 2019*

As part of its review, the Department conducted a high-level analysis of the 2019 depreciation expense provisions reported by Great Plains in Table 3 of the Petition to determine whether these provisions are reasonable in the context of the 2019 plant-in-service activity, asset remaining lives, and the 2019 approved depreciation rates. Based on the results of this analysis, the Department concludes that the 2019 depreciation expense provisions detailed in Petition Table 3 are reasonable.

3. *Great Plains' Building Retirements*

Great Plains reported no 2019 building-related retirements in Account 390.0 – *General Structures and Improvements*,[30] and, consequently, the Department concludes that Commission-ordered annual analysis of the Company's building retirements is not needed in the current Petition. Rather than continue to recommend that Great Plains provide an annual building retirement analysis for Account 390.0 in future depreciation filings, the Department discusses a different set of recommendations for the depreciation of this account in the following section.

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[28] For better comparability among all years documented in Department Table 2, the depreciation reserve balances exclude Risk Work in Progress (RWIP) reserve amounts.

[29] The year-end 2019 depreciation reserve shown in Department Table 2 does not match the depreciation reserve shown in Petition Table 3, because Petition Table 3 erroneously included a depreciation reserve balance for Account 388.0 – ARO (Asset Retirement Obligation). In response to a Department information request, Great Plains clarified that it should have excluded Account 388.0 from the depreciation study (Department Attachment 3). Therefore, the Department excluded the Account 388.0 depreciation reserve balance from the corresponding 2019 total documented in Department Table 2. → ($33,861,539 - $1,372,409) = 32,489,130. → Figures in the preceding calculation are shown in Petition Table 3, page 5-40.

[30] Petition, Table 2, page 5-33.

F. DEPRECIATION METHODOLOGY FOR ACCOUNT 390.0 – GENERAL STRUCTURES & IMPROVEMENTS

In recent proceedings, the Department recommended that three Minnesota utilities, Minnesota Energy Resources Corporation – MERC – (Docket No. G011/GR-17-563), Minnesota Power (Docket No. E015/D-18-544), and Xcel Energy (Docket No. E,G002/D-19-490) develop proposals to depreciate the significant building assets included in Account 390.0 – *General Structures & Improvements* on an individual, rather than group, basis. These recommendations originated from a building depreciation issue encountered in MERC's previous rate case in Docket No. G011/GR-17-563. The Department believes that the building depreciation issues pertaining to Account 390.0 for these other Minnesota utilities are also relevant to Great Plains; therefore, we make corresponding recommendations in the instant Comments.

1. Group Depreciation – Appropriate Applications and Potential Issues

Under a group depreciation methodology, a single average service life is estimated and assigned to a property group with the understanding that there will be dispersion in the actual ages reached by the property units in the group. In other words, the grouped units will retire at various ages reached before, at, or after the assigned ASL. A property unit that retires prior to reaching the ASL will, in a notional sense, cause the utility to incur a loss, because the unit would be under-depreciated and have a positive book value at the time of its retirement. Conversely, a property unit that retires later than the ASL will, in a notional sense, cause the utility to incur a gain, because the unit would be over-depreciated and have a negative book value at the time of its retirement. As explained in the following quotation, group depreciation assumes that the impact of early property unit retirements will be offset by the impact of late property unit retirements:

> Under group depreciation, no gain or loss is recognized for retirement of individual assets. Upon retirement of an asset from the group, the cost of the asset is debited to the accumulated depreciation account and credited to the asset account. Any gross salvage received for the retired asset is credited to the accumulated depreciation account and any cost of removal is debited to the accumulated depreciation account. Under group depreciation, since the accumulated depreciation relates to the entire group rather than to specific assets within the group, no gain or loss is recognized. This assumes that the group depreciation rate is accurate for the group as a whole and that the cost of the retired asset, net of gross salvage and cost of removal, is being fully provided for in the accumulated depreciation account.[31]

[31] Public Utility Depreciation Practices. (August, 1996). National Association of Regulatory Utility Commissioners. Page 49.

Group depreciation can be appropriate for accounts with large volumes of relatively low-cost property items that have similar functions and characteristics. For example, a group depreciation methodology is typically applied to assets such as utility meters, because tracking each of the tens of thousands (or, in some cases, significantly more) units individually for depreciation and retirement purposes would be impractical. Relatedly, due to the large number of meters typically owned by even a small utility, each individual meter represents just a tiny fraction of the total plant balance booked to the meters group, and therefore, even an extraordinarily early or late retirement of a single meter would not have a material impact on the group as a whole.

As noted in the previous quotation, in accounts with large volumes of similarly low-cost property units, the early or late retirement of assets should theoretically offset or balance one another over time. However, for accounts with a small number of relatively high-value assets that serve a variety of operational purposes, the early or late retirement of an individual asset can have a significant impact on the account's depreciation as a whole, without the probability that offsetting retirements that will have a balancing effect on the account.

2. *Great Plains' Account 390.0 Depreciation*

Because the Department has the same concerns around Account 390.0 depreciation for Great Plain as we do for other Minnesota utilities, we asked through an information request that, in regard to Account 390.0, Great Plains explain how it would:

- Determine which structures should be removed from the group to be depreciated separately, and which should remain in the group.
- Allocate the existing depreciation reserve among structures that should be removed from the larger group and those that remain in the group.
- Determine the remaining lives for structures that should be removed from the group and the remaining life for the group.[32]

In response to the relevant Department information request, Great Plains explained that its Account 390.0 includes eight buildings, ranging in cost from $100,000 to $900,000.[33] This description of the Company's Account 390.0 assets provides a good example of property that would be more reasonably depreciated on an individual, rather than group basis. Unlike the accounts with large volumes of low-cost property units to which group depreciation is more typically applied, Great Plains' Account 390.0 contains a relatively small number (eight) of relatively high-cost ($100,000 – $900,000) property units (buildings). The characteristics of the Company's Account 390.0 make it vulnerable to the previously

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[32] The bulleted explanations requested by the Department are consistent with the Account 390.0 depreciation information (1) requested of Minnesota Power in the Commission's January 14, 2019 *Order* to in Docket No. E015/D-18-544 and (2) provided by Xcel Energy in its October 10, 2019 Reply Comments in Docket No. E,G002/D-19-490.
[33] Department Attachment 4.

discussed group depreciation issue: an early retirement of one or more of the eight buildings could significantly impact the account's depreciation, and it would be unlikely that these impacts would be offset or balanced by other retirements within the account. Individually depreciating the structures in Account 390.0 would resolve the potential issues that could arise from applying group depreciation to the relevant assets. Therefore, the Department concludes that transitioning away from a group depreciation methodology is appropriate for Account 390.0.

While Great Plains expressed a preference to continue applying group depreciation to its assets in Account 390.0, the Company explained that, if required to contemplate a departure from group depreciation for Account 390.0, it would plan to remove all of the buildings out of the group and depreciate each of the account's eight buildings individually. Great Plains also explained that, if it were to depreciate the Account 390.0 buildings individually, it would allocate the account's existing depreciation reserve among the structures by essentially recreating the depreciation reserve for each structure, based on the structure's in-service date(s) and historical depreciation rates. The Company would then ratably allocate among the eight buildings any difference between the recreated depreciation reserves of the individual structures and the account's total existing depreciation reserve. Great Plains' knowledge of the original capital cost of each building in Account 390.0 will also likely prove useful in this process of depreciation reserve allocation. To determine appropriate remaining lives for its eight building structures, Great Plains indicated that it would use both the expertise of its external depreciation consultants and the Company management.[34]

The Department believes that the Company's suggested approach to transitioning Account 390.0 from a group to an individual depreciation methodology, as outlined in Department Attachment 4, appears methodical and reasonable. Therefore, the Department recommends that, with regard to Account 390.0, the Commission require Great Plains to do the following in its next annual depreciation update:

- Move the structures (buildings) in Account 390.0 out of their group, such that they can be depreciation individually going forward.

- Propose allocations of the existing depreciation reserve among the structures in Account 390.0.

- Propose individual remaining lives for the structures in Account 390.0.

G. UPDATE ON PVC REPLACEMENT PROGRAM

As required, Great Plains provided an update on its PVC replacement program in the current Petition. The Company reported that, of its intended replacement projects, it has replaced approximately 45 percent of total mains and 54 percent of total services as of the end of the 2019. During 2019, Great Plains documented replacing 61,302 feet of mains and 698 services.[35] Great Plains estimated that it

[34] Department Attachment 4.
[35] Petition, page 3-2.

has yet to replace 555,927 feet of mains and 4,399 services through the program. The Company also indicated that it currently anticipates completing the planned replacements within the PVC program term and will address any adjustment to the program timeline in the Company's next comprehensive depreciation study.[36]

The Company's PVC replacement program is particularly relevant to the depreciation rates of the following distribution plant accounts[37]:

- 378.0 – *Measuring and Regulating Station Equipment General*
- 381.0 – *Meters & Meter Installations*
- 383.0 – *House Regulators*

As explained in the Company's prior 5-year depreciation study,[38] in 2011[39] Great Plains initiated a 15-year PVC Replacement program, part of which involves visiting customer sites to replace meter bars, house regulators, and older meters that cannot be refurbished. Therefore, the depreciation rates developed for these accounts reflect the planned PVC replacement program's impact on the existing assets' retirement. The current Petition proposes to continue using the same depreciation rates initially approved by the Commission in Great Plains' most recent 5-year depreciation study;[40] this proposal is also consistent with the depreciation rates approved for the relevant accounts in the Company's 2018 and 2019 annual depreciation studies.[41]

Department Table 3 below shows the depreciation rates approved for accounts 378.0, 381.0, and 383.0 between 2013 and 2019. The depreciation rates for these accounts are based on the PVC replacement program period or phase and its progression over time.[42] The Department notes that it is plausible for the depreciation rates to remain unchanged between years, as Great Plains has proposed in its current Petition for 2020.

[36] See Department Attachment 2.
[37] This is not an exhaustive list of accounts that may be affected by the PVC replacement program. Rather, the prospective depreciation rate calculations for these accounts may be especially sensitive to new investments made through the program, because these accounts have smaller plant balances relative to other impacted accounts, such as 376.0 and 380.0.
[38] See Department's October 2, 2017 *Comments*, pages 4 and 5, in Docket No. G004/D-17-450.
[39] See Direct Testimony of Patrick Darras in Docket No. G004/GR-15-879, Exhibit 10, page 10.
[40] Docket No. G004/D-17-450.
[41] Docket Nos. G004/D-18-369 and Goo4/D-19-376.
[42] Docket No. G004/D-17-450.

Department Table 3: Depreciation Rates Approved for Great Plains' Accounts 378.0, 381.0, and 383.0

	Approved Depreciation Rate (%)		
Year	*Account 378.0*	*Account 381.0*	*Account 383.0*
2013	2.70	7.49	5.38
2014	5.11	8.05	6.14
2015	2.83	8.14	6.38
2016	2.83	8.14	6.38
2017	12.55	9.91	6.62
2018	12.55	9.91	6.62
2019	12.55	9.91	6.62

The Department concludes that using the previously approved depreciation rates for these accounts for 2020 is reasonable. However, as this program progresses, the Department expects Great Plains to adjust the depreciation rates as needed to reflect changes associated with the relevant asset replacements. The Department recommends that the Commission continue to require Great Plains to provide an update on the Company's PVC replacement program in its future depreciation studies.

H. OTHER MISCELLANEOUS ITEMS

Through its review, the Department noticed that in Table 2 of the Petition, Great Plains did not separately document certain capital adjustments that the Company recorded in 2019 and assigned to prior year capitalizations. Instead, the Company netted these adjustments for prior year capitalizations with other 2019 plant activity. In response to a Department information request, Great Plains provided a revised Petition Table 2 that separately documented the adjustments associated with prior year capitalizations and did not net the adjustments with the 2019 capital addition, transfer, or retirement figures. This updated version of Petition Table 2 allowed the Department to tie the 2019 plant activity, including the adjustments assigned to earlier years, to the Company's detailed depreciation calculations in Section 5 of the Petition. The Department concludes that the updated version of Petition Table 2 provides a more complete and clear view of the Company's plant activity. Therefore, the Department recommends that the Commission require Great Plains to use in future depreciation filings the updated format of Petition Table 2, as described in Department Attachment 6.

III. CONCLUSION AND RECOMMENDATIONS

Based on our review, the Department concludes that Great Plains' Petition complies with the applicable statutes and Commission orders, and that the Company's depreciation proposals in the instant docket are reasonable. Therefore, the Department recommends that the Commission take the following actions:

- Approve Great Plains' Account 393.0 depreciation parameters, as detailed in Table 1 of the Petition and at Petition page 5-26.
- Approve Great Plains' proposed depreciation rates, as outlined in Table 1 of the Petition, with an effective date of January 1, 2020.
- Require Great Plains to continue to exclude Account 388.0 – Asset Retirement Obligations from its future depreciation studies.
- With regard to Account 390.0, require Great Plains to do the following in its next annual depreciation update:
    - Move the structures (buildings) in Account 390.0 out of their group, such that they can be depreciation individually going forward.
    - Propose allocations of the existing depreciation reserve among the structures in Account 390.0.
    - Propose individual remaining lives for the structures in Account 390.0.
- Require Great Plains to continue to provide an update on the Company's PVC replacement program in its future depreciation studies.
- Require Great Plains to use in its future depreciation filings the updated format of Petition Table 2, as described in Department Attachment 6.

The Department emphasizes that the Commission's determination in depreciation proceedings are for accounting purposes only and are not a determination for purposes of rates.

/ja

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

Docket Number: G004/D-20-511 ☐Nonpublic ☒Public
Requested From: Great Plains Natural Gas Company Date of Request: 6/17/2020
Type of Inquiry: Financial Response Due: 6/29/2020

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:	Account 393 Stores Equipment.
Reference(s):	Great Plains' initial petition, pages 2-2 and 5-26 and Tables 1, 1A, and 1B.

Request:

a) Please provide specific explanations/information demonstrating that each of the depreciation-related parameters (remaining life, average service life, survivor curve, net salvage rate) assumed for Account 393 are justified and reasonable.

Response:

a) In the previous Technical Update, Account 393 – Stores Equipment was not included in the update as there was not a balance in this account. For this current Technical Update, this account now has a balance of $13,897; therefore, a depreciation rate is required.

Concentric notes that the recommended 15-SQ curve is widely used throughout the industry for this type of equipment, and the small amount of investment, and recommends its use until it is further studied in the next full depreciation study. Consistent with the use of a square curve, net salvage is not normally applied.

To be completed by responder

Response Date:	June 29, 2020
Response by:	Travis Jacobson, Director of Regulatory Affairs
Email Address:	travis.jacobson@mdu.com
Phone Number:	701 222.7855

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
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Request Number:	**3**
Topic:	PVC replacement project update.
Reference(s):	Great Plains' initial petition, page 3-2.

Request:

a) Great Plains stated in the instant petition that "…at the end of 2019, approximately 45% of total mains and 54% of total services planned to be replaced has been completed." In the Company's last annual depreciation update, Docket No. G004/D-19-376, Great Plains stated that "at the end of 2018, approximately 45% of total mains and 55% of total services planned to be replaced has been completed." Please confirm whether both of these statements are accurate, and, if so, please explain why the percentage of mains replaced remained the same and the percentage of services replaced decreased between 2018 and 2019. If either of these statements is inaccurate, please provide corrected information.

b) Please provide (1) the total number of feet of mains Great Plains has planned to replace through the PVC Program (2) the total number of services Great Plains has planned to replace through the PVC Program. Please include in these planned total figures both the mains/services that have already been replaced and those that have yet to be replaced through the PVC Program.

c) Please provide (1) the number of feet of mains that have yet to be replaced through the PVC Program and (2) the number of services that have yet to be replaced through the PVC Program.

d) At this point in time, does Great Plains anticipate being able to complete the all replacements planned within the PVC Program term? Please explain why or why not.

To be completed by responder

Response Date: June 29, 2020
Response by: Travis Jacobson, Director of Regulatory Affairs
Email Address: travis.jacobson@mdu.com
Phone Number: 701 222.7855

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

Docket Number: G004/D-20-511 ☐Nonpublic ☒Public
Requested From: Great Plains Natural Gas Company Date of Request: 6/17/2020
Type of Inquiry: Financial Response Due: 6/29/2020

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Request Number:	**3**
Topic:	PVC replacement project update.
Reference(s):	Great Plains' initial petition, page 3-2.

Response:

a) The information for the 2018 and 2019 Technical Updates were taken from the Company's respective Gas Utility Infrastructure Cost Adjustment – Annual Filing. The 2018 information was incorrect as was identified in Docket No. M-19-273, Information Request No. 2. Please see Response No. 3 Attachment A for Great Plains' response to Request No. 2. In this response, the 2018 total replacements originally showing a total of 45% of mains and 55% of services had been replaced, was corrected to identify that 45% of mains had been replaced and 51% of services had been replaced. The information reported in the 2019 Technical Update is correct.

b) Mains: Total identified mains to replace, 1,007,277 ft. Total mains replaced, 451,349 ft. Mains yet to be replaced, 555,927 ft.

   Services: Approximate total services to replace, 9,530. Approximate services replaced, 5,131. Approximate services yet to be replaced, 4,399.

c) See response to part b.

d) At this point, Great Plains anticipates completing the planned replacements within the PVC Program Term. At the next full depreciation study, the Company will address if there is any adjustment to the timeline for reasons such as: work to be completed in denser population areas, larger metropolitan site conditions, and weather conditions.

To be completed by responder

Response Date:	June 29, 2020
Response by:	Travis Jacobson, Director of Regulatory Affairs
Email Address:	travis.jacobson@mdu.com
Phone Number:	701 222.7855

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Information Request

Docket Number: G004/D-20-511 ☐Nonpublic ☒Public
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Request Number:	**6**
Topic:	Asset retirement obligation (ARO) – account 388.
Reference(s):	Great Plains' initial petition, Tables 2 and 3.

Request:

a) Please explain why Great Plains included a beginning plant balance and 2019 activity for Account 388 ARO in Tables 2 and 3 in the instant petition, but did not include a beginning plant balance and 2018 activity for Account 388 ARO in the Company's last depreciation update, Docket No. G004/D-19-376.

b) Please explain with specificity what ARO(s) are included in the 2019 ending balance under Account 388.

c) If the 2019 balances and/or activity in Account 388 resulted from a regulatory approval or directive, please provide a specific reference to that approval or directive.

Response:

a) In the 2018 Technical Update, the Company specifically omitted this line from the report as it is not included within rate base. In 2019, the report inadvertently included this line. Please see Response No. 6 Attachment A for Table 2 and Response No. 6 Attachment B for Table 3 that reflect the revised Table 2 and Table 3 that exclude the ARO. Importantly, Account 388 was not included in the depreciation results in Table 1 of the 2019 Technical Update.
b) The AROs are for the removal or cutting and capping of gas mains and service lines.
c) The AROs are not part of a regulatory approval or directive and are not part of the Company's rate base.

To be completed by responder

Response Date:	June 29, 2020
Response by:	Travis Jacobson, Director of Regulatory Affairs
Email Address:	travis.jacobson@mdu.com
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Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G004/D-20-511 ☐Nonpublic ☒Public
Requested From: Great Plains Natural Gas Company Date of Request: 6/17/2020
Type of Inquiry: Financial Response Due: 6/29/2020

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Request Number:	**7**
Topic:	Separately depreciating buildings in Account 390.
Reference(s):	No specific reference.

Request:

In recent years, the Department has recommended and the Public Utilities Commission has directed several Minnesota utilities (Minnesota Energy Resources Corporation, Minnesota Power, and Xcel Energy) to develop a plan to separately (rather than group) depreciate significant building assets included in Account 390 (Docket Nos. G011/GR-17-563, E015/D-18-544, E,G002/D-19-490). Some utilities have already implemented this depreciation methodology change – for an example, see Minnesota Power's depreciation filing in Docket No. E015/D-19-534.

Assuming Great Plains were to separately (rather than group) depreciate the relatively significant building assets in Account 390, please explain how the Company would propose to do the following:

- Determine which structures should be removed from the group to be depreciated separately, and which should remain in the group.
- Allocate the existing depreciation reserve among structures that should be removed from the larger group and those that remain in the group.
- Determine the remaining lives for structures that should be removed from the group and the remaining life for the group.

To be completed by responder

Response Date: June 29, 2020
Response by: Travis Jacobson, Director of Regulatory Affairs
Email Address: travis.jacobson@mdu.com
Phone Number: 701 222.7855

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

Docket Number: G004/D-20-511 ☐Nonpublic ☒Public
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Request Number:	**7**
Topic:	Separately depreciating buildings in Account 390.
Reference(s):	No specific reference.

Response:

a) Each of Great Plains' buildings are used entirely for regulatory utility operations. Great Plains has only eight buildings in 5 towns in Account 390 and these building range in cost from $100,000 to $900,000 each. The Company strongly encourages the Commission to continue to allow the current practice of using group assets and a single average remaining life depreciation rate that is developed based on the parameters of the total group assets in Account 390. However, if required, the Company would recommend all buildings be depreciated separately as having two depreciation methodologies for such a small group would be administratively burdensome. Great Plains is much smaller than Minnesota Energy Resources Corporation, Minnesota Power, and Xcel Energy and circumstances regarding its buildings are likely different than the larger referenced utilities.

b) The Company would have to manually recreate the individual accumulated reserve for each asset based on the asset's original in-service date and associated depreciation rates for each year the asset has been in service. It is worth noting that Great Plains' original costs have vintages beginning in 1967. Then the total of all the individual asset accumulated reserves would be compared to the existing accumulated reserve balance. Any difference would have to be spread ratably across the individual asset accumulated reserves.

c) Great Plains' currently utilize the expertise of tis depreciation study consultant for this group of buildings. If depreciated separately, the Company would continue to seek their input on building lives but would also work with Company Management to determine any definite retirement plans for any of the building assets. Great Plains also notes that it would incur additional costs to determine appropriate building lives.

To be completed by responder

Response Date:	June 29, 2020
Response by:	Travis Jacobson, Director of Regulatory Affairs
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Minnesota Department of Commerce
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Information Request

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Request Number:	**8**
Topic:	Major future additions or retirements.
Reference(s):	Minnesota Rule 7825.0700, Subpart 2.

Request:

a) As required by Minnesota Rule 7825.0700, Subpart 2, B, please provide a list of any major future additions or retirements that Great Plains believes could have a material effect on the current depreciation results.

b) In general, what criteria or thresholds does Great Plains use to determine whether a future capital addition or retirement is “major” enough to report as a part of the annual depreciation filing?

Response:

a) The Company doesn’t have any major future additions or retirements planned that would have a material effect on depreciation rates.

b) The Company would have to analyze the impact on the materiality of depreciation rate changes and/or the change in overall depreciation expense. In each case, the major future addition would have to be analyzed on a case by case basis to determine whether it is significant enough to report as a part of the annual depreciation filing.

To be completed by responder

Response Date:	June 29, 2020
Response by:	Travis Jacobson, Director of Regulatory Affairs
Email Address:	travis.jacobson@mdu.com
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Information Request

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Request Number:	**9**
Topic:	Adjustments to vintage Original Costs.
Reference(s):	Great Plains' initial petition, Section 5 and Table 2.

Request:

a) Please provide in Excel format, with all formulas intact, an updated Table 2 with the following modifications:

- Add a new column to capture any adjustments that were made to the accounts during 2019, but that were not the direct result of the actual 2019 capital additions, retirements, or transfers that were incurred or occurred in 2019 (i.e. the adjustments in this new column would have been made during 2019, but associated with/assigned to earlier years/vintages). Using this newly added column, document by account the adjustments described in the preceding sentence.

- Revise the "Sum of additions," "Sum of retirements," and "Sum of transfers" as needed so that they are not netted with the adjustments described is the previous bullet and so that they reflect only the actual 2019 capital additions, retirements, and transfers that were incurred or occurred in 2019. For example, the "Sum of additions" column should reflect the 2019 capital additions corresponding to each account WITHOUT netting the 2019 capital additions with any other adjustments to the account. In other words, the "Sum of additions" column should reflect the total actual capital investments incurred in 2019 for each account, but it should not reflect a netting of these capital investments with any other upward or downward capital adjustments associated with earlier years.

To be completed by responder

Response Date: June 29, 2020
Response by: Travis Jacobson, Director of Regulatory Affairs
Email Address: travis.jacobson@mdu.com
Phone Number: 701 222.7855

COMMERCE DEPARTMENT

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

Docket Number: G004/D-20-511 ☐Nonpublic ☒Public
Requested From: Great Plains Natural Gas Company Date of Request: 6/17/2020
Type of Inquiry: Financial Response Due: 6/29/2020

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Email Address(es): gemma.miltich@state.mn.us
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ADDITIONAL INSTRUCTIONS:
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Request Number:	**9**
Topic:	Adjustments to vintage Original Costs.
Reference(s):	Great Plains' initial petition, Section 5 and Table 2.

b) For each adjustment captured in the updated Table 2 from part a) of this information request, please provide the following information:

- The vintage(s) to which the adjustment(s) is/are assigned and the portion of the adjustment (use dollar amounts) assigned to each relevant vintage. This information should tie out to the detailed depreciation calculations by account in Section 5 of the petition, and, if it doesn't, please explain why not.

- The reason for the adjustment (i.e. what changes or new information prompted the need for Great Plains to make the adjustment?).

Response:

a) Please see Response No. 9 Attachment A, Table 2 with Adjustments tab, which includes an adjustment column to capture adjustments to prior vintage original costs.

b) Please see Response No. 9 Attachment A, Adjustments by Vintage tab, for the requested detail related to the adjustments requested in 8a.

To be completed by responder

Response Date:	June 29, 2020
Response by:	Travis Jacobson, Director of Regulatory Affairs
Email Address:	travis.jacobson@mdu.com
Phone Number:	701 222.7855

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. G004/d-20-511

Dated this **14th** day of **July 2020**

/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_20-511_D-20-511
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_20-511_D-20-511
Travis	Jacobson	travis.jacobson@mdu.com	Great Plains Natural Gas Company	400 N 4th St Bismarck, ND 58501	Electronic Service	Yes	OFF_SL_20-511_D-20-511
Brian	Meloy	brian.meloy@stinson.com	STINSON LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_20-511_D-20-511
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_20-511_D-20-511
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_20-511_D-20-511