

August 31, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

**RE: Supplemental Letter of the Minnesota Department of Commerce, Division of
Energy Resources (Department)**
Docket No. G011/D-15-534

Dear Mr. Wolf:

On July 20, 2015, the Department filed Comments in Minnesota Energy Resources Corporation's (MERC or the Company) request for its *Annual Review of Depreciation Rates for 2015*. With one exception, the Department recommended that the Minnesota Public Utilities Commission (Commission) approve MERC's proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2015 including MERC's proposal for an average service life of eight years, an Iowa L3 curve, and a negative 25 percent net salvage rate for Transportation Equipment, Account 392.2. The Department also recommended that the Commission deny MERC's request to use the current depreciation rate of 0.18 percent for new investment in Trailers, Account 392.

Additionally, the Department requested that in its Reply Comments, MERC provide a discussion on whether a full study of all accounts including the purchased Interstate Power and Light (IPL) property could be completed by June 1, 2016 rather than June 1, 2017.

On July 31, 2015, MERC filed its Reply Comments. MERC agreed with the Department's recommendation to approve the depreciation rates effective January 1, 2015 and to use the General Plant composite depreciation rate of 4.47 percent for new investment in Trailers, Account 392.

Regarding whether a full study of all accounts could be done by June 1, 2016, MERC proposed to maintain the schedule and complete a full study by June 1, 2017. MERC stated:

While MERC acknowledges that a study could be undertaken in 2016, MERC questions the benefit in doing so. . . . Based on the above discussion, MERC believes the June 1, 2017, date remains appropriate.

On August 13, 2015, the Department's Letter stated:

If MERC were not expected to file a rate case in the near term, the Department might agree with the Company that the extensive review could wait. However, Minn. Stat. § 216B.16,

subd. 4 states that “[t]he burden of proof to show that the rate change is just and reasonable shall be upon the public utility seeking the change.” Given that a significant focus of that rate proceeding will be to incorporate the costs of IPL’s gas utility assets in rates, it is not clear how the record will be developed adequately for the Commission to make the determinations required in Minn. Stat. § 216B.16 subd. 4, which states. . . .

Thus, if MERC is unable to provide a full depreciation study in time for its upcoming general rate case, the Commission may wish to set rates in that proceeding on a provisional basis, subject to later review of MERC’s depreciable lives, curves, or net salvage rates, in the June 1, 2017 study.¹

On August 21, 2015, MERC filed Supplemental Reply Comments and disagreed with the Department’s position that a full depreciation study be completed for its initial general rate-case filing anticipated in late September. Additionally, the Company included new information about the effect on MERC’s annual depreciation expense if IPL’s plant is included at MERC’s proposed depreciation rates in the current docket:

The inclusion of IPL plant assets also results in an annual depreciation expense of approximately \$430,000 for those assets. MERC notes that depreciation expense calculated using MERC’s depreciation rates as proposed by MERC in this docket would result in approximately \$310,000 less expense than IPL’s depreciation rates, and these lower depreciation rates will be captured in MERC’s 2016 rate case filing.²

Additionally, MERC offered to “initiate a full study for completion in 2016 if the Commission determines the schedule should be accelerated.”³ The Department notes that no due date in 2016 was proposed by the Company. The Department’s concern with MERC filing a depreciation study on June 1, 2016 or later is that the record may be closed for parties to testify in MERC’s general rate case on that study. The Department notes that, ideally, the full study should be filed by January 4, 2016 (at the latest) so that Direct Testimony on the study could be filed, if needed.

The inclusion of IPL’s former assets into MERC’s rate base represents a significant enough change in MERC’s rate base such that a new depreciation study is warranted. While the Department recognizes that the Commission generally allows the currently approved depreciation rates in interim rates, MERC’s purchase of IPL’s assets should require a

¹ Department’s August 13, 2015 Letter, page 2.

² MERC’s August 21, 2015 Supplemental Reply Comments, pages 2-3. The Department notes that MERC’s filing does not contain page numbers.

³ MERC’s August 21, 2015 Supplemental Reply Comments, page 3.

reasonable level of analysis regarding the depreciation expense impact of combining those two entities' assets on the depreciable lives and salvage rates of those assets.

Alternatively, given the ten-month length of the general rate-case process, a study filed later than January 4, 2016 but with a reasonable opportunity for the parties to comment prior to closing the evidentiary record (*i.e.*, evidentiary hearing) may be workable. In determining final rates, the Commission has allowed final rates to reflect the effect of depreciation studies filed and approved during a general rate-case proceeding.

If a full study of the lives and salvage rates is filed after the close of the evidentiary record, the Commission may wish to set rates in MERC's general rate-case proceeding on a provisional basis. In that case, the Commission could set final rates with the understanding that rates may change based on a later decision on the Company's 2016 depreciation study.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/ja

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
Supplemental Letter**

Docket No. G011/D-15-534

Dated this 31st day of August 2015

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_15-534_D-15-534
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_15-534_D-15-534
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	150 S. 5th Street, #1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-534_D-15-534
Gregory J.	Cieslewicz	gjcieslewicz@integrysgrp.com	Minnesota Energy Resources Corporation	700 N. Adams Street P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	No	OFF_SL_15-534_D-15-534
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_15-534_D-15-534
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	OFF_SL_15-534_D-15-534
Amber	Lee	ASLee@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St W Rosemount, MN 55068	Electronic Service	No	OFF_SL_15-534_D-15-534
John	Lindell	agorud.ecf@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_15-534_D-15-534
Brian	Meloy	brian.meloy@stinsonleonard.com	Stinson, Leonard, Street LLP	150 S 5th St Ste 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-534_D-15-534
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-534_D-15-534
Kristin	Stastny	kstastny@briggs.com	Briggs and Morgan, P.A.	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-534_D-15-534

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_15-534_D-15-534
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_15-534_D-15-534
Tina E	Wuyts	tewuyts@integrysgroup.com	Minnesota Energy Resources Corporation	PO Box 19001 700 N Adams St Green Bay, WI 54307-9001	Electronic Service	No	OFF_SL_15-534_D-15-534