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February 25, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of
Energy Resources**
Docket No. E015/D-13-275

Dear Dr. Haar:

Attached are the Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in response to Minnesota Power's January 10, 2014 Reply Comments in the following matter:

Minnesota Power's 2013 Remaining Life Depreciation Petition.

Minnesota Power's Reply Comments were submitted by:

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

The Department maintains the recommendation of **approval, with modifications**, from its October 11, 2013 Comments.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/lt
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. E015/D-13-275

I. BACKGROUND

On April 12, 2013, Minnesota Power (MP or the Company) submitted its 2013 Remaining Life Depreciation Petition (2013 Depreciation Petition).

On October, 11, 2013, the Department filed Comments in which it recommended, among other things, that the Minnesota Public Utilities Commission (Commission) require MP to update its salvage rates to reflect a decommissioning study conducted by the Company in 2011 (2011 Decommissioning Study). The use of these updated rates, rather than the salvage rates proposed in the 2013 Depreciation Petition, would result in an increase in depreciation expense of \$2.6 million.¹

On January 10, 2014, MP filed Reply Comments in which it disagreed with the Department's salvage rate recommendation, and instead requested that the Commission approve the salvage rates proposed in the 2013 Depreciation Petition.

II. SUMMARY OF MINNESOTA POWER'S REPLY COMMENTS

In its Reply Comments, the Company stated that 2011 Decommissioning Study was a planning tool which supported the Company's 2012 Baseload Diversification Study and 2013 Integrated Resource Plan and was not completed for the 2013 Depreciation Petition. The Company also stated that it is in the process of completing an updated decommissioning study which will be incorporated into the Company's upcoming 2014 Remaining Life Depreciation Petition. Table 1 of Minnesota Power's Reply Comments, reports the salvage rates that result from this study, which are shown in column [c] of the table below.

¹ See Attachment 2 to the Department's October 11, 2013 Comments.

Table 1
Summary of Current and Proposed
Salvage Rates

	Salvage Rates Proposed in 2013 Depreciation Petition [a]	Salvage Rates Calculated with Estimates from 2011 Decommissioning Study [b]	Salvage Rates Calculated with Estimates from Updated Decommissioning Study [c]
Boswell Energy Center			
Unit 1	-1.82%	-6.92%	-6.23%
Unit 2	-2.27%	-9.13%	-8.06%
Unit 3	-4.19%	-4.93%	-4.50%
Unit 4	-3.84%	-4.88%	-4.65%
Common	-1.77%	-2.89%	-2.11%
Laskin Energy Center	-10.87%	-33.95%	-14.66%
Taconite Harbor	-3.60%	-5.91%	-4.36%

Sources:

- [a] 2013 Depreciation Petition, page 5
- [b] Department's October 11, 2013 Comments, Attachment 1
- [c] Minnesota Power's January 10, 2014 Reply Comments, Table 1

The salvage rates calculated with estimates from the 2011 Decommissioning Study, recommended by the Department, are included in column [b] of the table. The Company attributed the difference between the salvage rates columns [b] and [c] in Table 1 to changes in the assumptions used in the 2011 Decommissioning Study and the Updated Decommissioning Study MP plans to use in its 2014 Remaining Life Depreciation Petition. On pages 2-3 of its Reply Comments, Minnesota Power listed the following major assumption changes between the two studies:

- 1.) All structures will be demolished to grade versus four feet below grade;
- 2.) Coal pile restoration will be six inches below grade versus a foot below grade;
- 3.) Ten percent contingency versus twenty percent contingency;
- 4.) Laskin Energy Center (Laskin) ponds will be capped versus relocating all ash; and
- 5.) Deposit concrete at Laskin on-site versus off-site

The Company also noted that the scrap value assumptions in each study are based on actual scrap values at the time the study was conducted, and scrap values included in the updated study are lower than in the 2011 Decommissioning Study.

In its Reply Comments, Minnesota Power recommended that the Commission approve the salvage rates proposed in the 2013 Depreciation Study for all of its production units. However, the Company emphasized that the Department's proposed salvage rate for Laskin (negative 33.95 percent) is particularly inappropriate, as Minnesota Power expects to propose a salvage rate of negative 14.66 percent in its 2014 Remaining Life Depreciation Petition.

Minnesota Power stated that in the past it has reviewed decommissioning estimates every five years and, consistent with past practice, plans to adjust its salvage rates in the upcoming 2014 Remaining Life Depreciation Petition. On pages 3-4 of its Reply Comments, the Company stated:

As a publicly traded company, Minnesota Power provides earnings guidance, relying in part on precedence for items such as decommissioning studies and rates. Requiring an updated decommissioning study and updated decommissioning rates under currently unestablished guidelines or precedence results in uncertainty which is problematic. Therefore, Minnesota Power requests that the plan to adjust the salvage rates in 2014 based on the results of the five year required Decommissioning Study update for 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study be followed.

Lastly, the Company stated that if it had planned on incorporating the 2011 Decommissioning Study in the 2013 Remaining Life Petition, it would have requested other changes, such as life extensions for its hydro facilities.

I. DEPARTMENT ANALYSIS

A. SALVAGE RATES

With respect to Minnesota Power's practice of updating its decommissioning estimates every five years, the Department notes that Minnesota Rule 7825.0600, subp. 2, part D, requires utilities to:

review their depreciation rates annually to determine if they are still generally appropriate. Depreciation certification studies shall be made so that all primary accounts shall have been analyzed **at least** every five years. **(emphasis added)**

Based on the language of this rule, the Department agrees that it is generally reasonable for Minnesota Power to analyze and update its decommissioning estimates, at a minimum, once every five years and update its salvage rates accordingly. However, if the Company updates its decommissioning estimates outside of that five year schedule, and the assumptions used to develop those estimates are appropriate for depreciation purposes, the Company should incorporate the new estimates into its depreciation calculations.

MP last updated its decommissioning estimates in Docket No. E015/D-09-407. Thus, per Minnesota Rule 7825.0600, MP would have been allowed to wait until its 2014 Remaining Life Depreciation Petition, at the very latest, to update its decommissioning estimates. However, in its June 29, 2010 Order in Docket No. E015/D-10-223 (MP's 2010 Depreciation Docket), the Commission required MP to conduct an external study for decommissioning to be submitted within 90 days of Minnesota Power's next resource plan filing pursuant to Minn. Stat. §216B.2422. Pursuant to this Order, Minnesota Power conducted the 2011 Decommissioning Study and filed it with the Commission on March 29, 2013 in Docket No. E015/RP-13-53, MP's 2013 Integrated Resource Plan (IRP) Docket. The 2011 Decommissioning Study was used in MP's recent Baseload Diversification Study (Docket No. E015/RP-09-1088) and its 2013 IRP. Thus, unless there is a specific reason why the estimates from the 2011 Decommissioning Study are inappropriate for depreciation purposes, they should serve as the basis for MP's salvage rates.

In Information Request No. 12, the Department asked MP to explain why, for each of the major assumption changes noted above, the assumption made in the 2011 Decommissioning Study was appropriate for use in the resource planning process, but not appropriate for depreciation purposes.² In its response, the Company stated:

The 2011 Decommissioning Study was completed to support Minnesota Power's Baseload Diversification Study (Docket RP-09-1088) and 2013 Integrated Resource Plan (Docket RP-13-53). For the 2011 study the company relied upon existing environmental engineering assumptions with updated rates and costs for use in resource planning. The 2011 study was never intended or developed to be incorporated into the 2013 Remaining Life Depreciation Petition. Minnesota Power intends to follow current regulatory precedent and provide an updated Decommissioning Study that will be incorporated into Minnesota Power's 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study as is required every five years. In the process of updating the Decommissioning Study for the 2014 Remaining Life Petition, Minnesota Power completely reassessed engineering assumptions for appropriateness and prudence, and is reflecting rules and regulations currently in effect consistent with Minnesota Power's current thinking on environmental engineering assessments. Both the 2011 and the updated Decommissioning Study for the 2014 filing are reasonable approaches and based on Minnesota Power's thinking at the time considering the intended use of the report.

Based on this response, it appears that the Company did not use the 2011 Decommissioning Study in its 2013 Depreciation Petition only because its timing did not match the Company's five-year schedule of updating its decommissioning estimates. However, as stated above, Minnesota Rule 7825.0600 requires updates **at least** once every five years, and the Department

² See Department Attachment No. 1.

concludes that because the Company has updated decommissioning estimates, those estimates should be reflected in its depreciation calculations.

The Department understands that Minnesota Power is likely to propose new salvage rates in its upcoming 2014 Remaining Life Depreciation Petition, and that, particularly for Laskin, those salvage rates will be different than the salvage rates calculated using the results of the 2011 Decommissioning Study. The Department also understands that a Commission decision to require the Company to use the 2011 Decommissioning Study in this Docket followed by approval of the new salvage rates (shown in Table 1 above) in MP's next depreciation filing would result in an unusual level of volatility in the Company's depreciation expense. However, these salvage rates have not yet been proposed, and may or may not prove to be reasonable. The decommissioning estimates produced in the 2011 Decommissioning Study represent the most current and best estimates of MP's anticipated decommissioning costs, and therefore the Department concludes that they should be used as the basis for determining the Company's salvage rates.

Additionally, the Department notes that in its October 29, 2012 Reply Comments in Docket No. E015/D-12-378, Minnesota Power stated:

Minnesota Power is required, to conduct an external study for decommissioning and submit it within 90 days of its next Integrated Resource Plan filing pursuant to Minn. Stat. § 216B.2422. This will likely change the decommissioning estimates and decommissioning probabilities estimates being used in the salvage rate calculation, so the Company proposes that the change in calculation of the salvage rate discussed above be made along with these other changes in estimates in next year's filing.
[footnote omitted]

The Department further notes that the statement above was made well after the 2011 Decommissioning Study had been completed. The Department asked MP, in Information Request No. 13, to explain why, after making the statement above, it no longer considers the 2011 Decommissioning to be appropriate for depreciation purposes.³ In its response, the Company reiterated that the 2011 Decommissioning Study was developed for the 2013 IRP and was not intended for use in the 2013 Depreciation Study. The Company also stated that:

At the time of the MP Comments on October 29, 2012, Minnesota Power knew from the results of the Baseload Diversification Study that certain decisions on facility closures would need to be proposed by the Company and approved by the Commission. At the time of these comments the company had no idea what preferred plan would be proposed by the company or what the eventual outcome of the IRP process would require for facility closures. Given the proposed scope of the 2013 IRP process as

³ See Department Attachment No. 2.

prescribed by the Baseload Diversification study, it is reasonable to assume that there might need to be some changes to salvage rates for certain facilities depending on certain outcomes at the time Minnesota Power made the October 29, 2012 comments.

As explained in the Department's October 11, 2013 Comments, however, the decommissioning estimates produced in the 2011 Decommissioning Study represent the cost to decommission MP's plants, as those plants exist today, and measured in today's dollars (*i.e.*, not adjusted for future inflation), and do not rely on the outcome of the 2013 IRP.

B. EFFECTIVE DATE

The Department notes that its initial Comments in this Docket did not include an explicit recommendation regarding the effective date for the proposed depreciation parameters and rates. However, in its 2013 Depreciation Petition, Minnesota Power proposed an effective date of January 1, 2013, and the Department agreed with this proposal. Despite the fact that 2013 has ended, the Department continues to support an effective date of January 1, 2013.

II. RECOMMENDATIONS

Based on the discussion above, the Department maintains its recommendations to the Commission included in the Department's October 11, 2013 Comments. Specifically, the Department recommends that the Commission:

1. Require MP to continue to provide in future remaining life depreciation studies a comparison of the remaining lives used in its depreciation filing and in the utility's then-current resource plan, and an explanation of any differences;
2. Require MP to include in its next remaining life depreciation study an analysis comparing its depreciation expense calculated using its current decommissioning probabilities and its depreciation expense calculated without decommissioning uncertainties;
3. Require MP to include in its next remaining life depreciation petition a summary of supplemental depreciation expense recorded during 2013 pursuant to the Commission's Order in the 2012 Depreciation Docket, as well as a summary of supplemental depreciation expense to be recorded in the future;
4. Approve MP's proposed remaining lives with an effective date of January 1, 2013; and
5. Approve the salvage rates calculated with the estimates of decommissioning costs derived in the 2011 Decommissioning Study, as shown in column [b] of Table 1 above with an effective date of January 1, 2013.

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Docket No. E015/D-13-275
 Department Attachment 1
 Page 1 of 2

Utility Information Request

Docket Number: E015/D-13-275

Date of Request: January 14, 2014

Requested From: Debra A. Davey

Response Due: January 27, 2014

Analyst Requesting Information: Craig Addonizio

Type of Inquiry: Financial Rate of Return Rate Design
 Engineering Forecasting Conservation
 Cost of Service CIP Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
12	<p>Reference: Differences Between 2011 Decommissioning Study and Updated Decommissioning Study</p> <p>On pages two and three of MP's Reply Comments, the Company lists a number of differences between the assumptions used in the 2011 Decommissioning Study and the assumptions used in the Updated Decommissioning Study the Company plans to use in its upcoming 2014 Remaining Life Depreciation Study. For each of the differences listed, please explain why the assumption from the 2011 Decommissioning Study is appropriate for use in the resource planning process, but is not appropriate for depreciation/accounting purposes. For example, please explain why it is reasonable to assume that structures must be demolished to four feet below grade in MP's IRP, but it is not reasonable to make the same assumption when calculating depreciation expense.</p>

Response by: _____ List sources of information: _____
 Title: _____
 Department: _____
 Telephone: _____

12. RESPONSE:

The 2011 Decommissioning Study was completed to support Minnesota Power's Baseload Diversification Study (Docket RP-09-1088) and 2013 Integrated Resource Plan (Docket RP-13-53). For the 2011 study the company relied upon existing environmental engineering assumptions with updated rates and costs for use in resource planning. The 2011 study was never intended or developed to be incorporated into the 2013 Remaining Life Depreciation Petition. Minnesota Power intends to follow current regulatory precedent and provide an updated Decommissioning Study that will be incorporated into Minnesota Power's 2014 Remaining Life Depreciation Petition and Production Plant Depreciation Study as is required every five years. In the process of updating the Decommissioning Study for the 2014 Remaining Life Petition, Minnesota Power completely reassessed engineering assumptions for appropriateness and prudence, and is reflecting rules and regulations currently in effect consistent with Minnesota Power's current thinking on environmental engineering assessments. Both the 2011 and the updated Decommissioning Study for the 2014 filing are reasonable approaches and based on Minnesota Power's thinking at the time considering the intended use of the report.

Minnesota Power, like many utilities across the nation, is working through a period of significant fleet change and evolution. As such, the Company's analysis and evaluation of assumptions over time in studies relating to planning and decommissioning are to be expected and anticipated to continue into the future. In order to best address these fleet evolution implications, Minnesota Power articulated in the 2012 Remaining Life Petition hearing, requiring an updated Decommissioning Study for Remaining Life Depreciation Petitions more often than every five years should be discussed and decided in the Generic Docket which Minnesota Power requested and the Commission approved.

Response by: _____	List sources of information: _____
Title: _____	_____
Department: _____	_____
Telephone: _____	_____

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Docket No. E015/D-13-275
 Department Attachment 2
 Page 1 of 2

Utility Information Request

Docket Number: E015/D-13-275

Date of Request: January 14, 2014

Requested From: Debra A. Davey

Response Due: January 27, 2014

Analyst Requesting Information: Craig Addonizio

Type of Inquiry: ... Financial ... Rate of Return ... Rate Design
 ... Engineering ... Forecasting ... Conservation
 ... Cost of Service ... CIP ... Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
13	<p>Reference: MP's Reply Comments in Docket No. E015/D-12-378.</p> <p>On page 6 of its October 29, 2012 Reply Comments in Docket No. E015/D-12-378, the Company stated:</p> <p style="padding-left: 40px;">Minnesota Power is required to conduct an external study for decommissioning and submit it within 90 days of its next Integrated Resource Plan filing pursuant to Minn. Stat. §216B.2422. This will likely change the decommissioning estimates and decommissioning probabilities estimates being used in the salvage rate calculation, so the Company proposes that the change in calculation of the salvage rate discussed above be made along with these other changes in estimates in next year's filing. [footnote omitted]</p> <p>This statement was made more than a year after the 2011 Decommissioning Study was completed. Please explain why MP, after having had a year to review the 2011 Decommissioning Study, felt that it was likely to have an impact on the Company's depreciation accounting, only to reverse its position more than a year after making the statement quoted above.</p>

Response by: _____

List sources of information: _____

Title: _____

Department: _____

Telephone: _____

13. RESPONSE:

The section from the Reply Comments referenced above was made just after Minnesota Power's Baseload Diversification study as approved (Order in Docket RP-09-1088) on September 13, 2012 and long before Minnesota Power filed its 2013 IRP (Initial filing Docket RP-13-53) on March 1, 2013 and before we started planning for and preparing the information for the 2013 Remaining Life Depreciation Petition. Minnesota Power intentionally did not incorporate it into the 2013 Remaining Life Depreciation Petition as it was developed as a planning tool which supported Minnesota Power's Resource Plan processes and related filings.

At the time of the MP Comments on October 29, 2012, Minnesota Power knew from the results of the Baseload Diversification Study that certain decisions on facility closures would need to be proposed by the Company and approved by the Commission. At the time of these comments the company had no idea what preferred plan would be proposed by the company or what the eventual outcome of the IRP process would require for facility closures. Given the proposed scope of the 2013 IRP process as prescribed by the Baseload Diversification study, it is reasonable to assume that there might need to be some changes to salvage rates for certain facilities depending on certain outcomes at the time Minnesota Power made the October 29, 2012 comments.

Response by: _____

List sources of information:

Title: _____

Department: _____

Telephone: _____

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
Response Comments**

Docket No. E015/D-13-275

Dated this 25th day of February 2014

/s/Sharon Ferguson

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