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Minnesota Department of Commerce

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August 29, 2013

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

RE: Comments of the Minnesota Department of Commerce, Division of Energy Resources
Docket No. E,G001/D-13-558

Dear Dr. Haar:

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

> Interstate Power and Light Company's Petition for Approval of its 2013 Annual Depreciation Study.

The petition was filed on July 1, 2013. The petitioner is:

> Kent Ragsdale
> Managing Attorney - Regulatory
> Alliant Tower
> 200 First Street S.E., P.O. Box 351
> Cedar Rapids, IA 52406-0351

The Department recommends that the Commission **approve** IPL's proposed remaining lives, salvage values, and resulting depreciation rates, effective January 1, 2013.

The Department requests that IPL confirm in its Reply Comments whether the proposed salvage change from negative 10 to negative 15 percent for Centerville CT Unit 1's generator is accurate. If so, the Department requests that IPL provide support for the proposed change in the salvage rate.

The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. E,G001/D-13-558

I. BACKGROUND

Interstate Power and Light Company (IPL or the Company) is a wholly owned subsidiary of Alliant Energy Corporation, a public utility holding company with two utility subsidiaries – Interstate Power and Light Company and Wisconsin Power and Light Company. IPL provides utility (electric and gas) services to customers in Minnesota and Iowa.

IPL's previous annual depreciation study was approved by the Commission in its Order on October 30, 2012 in Docket No. E,G001/D-12-680 (Docket No. 12-680).

II. SUMMARY OF INTERSTATE'S PROPOSAL

On July 1, 2013, IPL filed its petition for approval of its 2013 depreciation rates and methods (2013 Depreciation Study) to be used by IPL pursuant to Minn. Stat. § 216B.11, Minn. R, pts. 7825.0600 and 7825.0700 and the Minnesota Public Utilities Commission's (Commission) Order in Docket No. 12-680.[1] IPL requested that upon Commission approval, the new remaining lives and net salvage rates for property physically located in Minnesota become effective as of January 1, 2013. The Company also requested that the Commission authorize IPL to make the necessary adjustments for book accrual purposes reflecting the proposed revised rates of depreciation in IPL's petition.[2]

1 IPL's petition, page 1.

2 IPL's petition, page 19.

IPL stated that its proposed retirement dates for its electric generation facilities are based on the Company's understanding of current environmental regulations, and the Company's best estimate of future environmental regulations, along with operational, market and other factors.[3] As a result, IPL asserted that its proposed retirement dates represent realistic retirement dates.[4] However, IPL stated that significant changes to environmental regulation may occur prior to the planned retirement dates.[5] In addition, IPL stated that significant upgrade costs could be required that would make upgrades uneconomical, thus making compliance with environmental regulations cost prohibitive.[6] Such changes may force retirement prior to the planned retirement date for IPL's electric generating facilities.[7] IPL stated that it will continue to monitor environmental policies and regulations, along with operational, market and other factors, and if appropriate, revise retirement dates for certain facilities as changes become known and measurable.[8]

According to IPL, the Company has not changed any of its methodologies for determining salvage values, depreciation rates or average service lives.[9] However, IPL proposed adjustments to the remaining lives and net salvage percentages of certain of its generating facilities in the 2013 Depreciation Study.[10] The changes proposed in retirement dates are shown in IPL's Table 1[11] as follows:

	Present Retirement Year	Proposed Retirement Year
Neal Generating Station – Unit 3	2027	2035
Neal Generating Station – Unit 4	2024	2040
Dubuque Diesels	2019	2014
Lansing Generating Station Unit 3	2012	Retired 2013
Montgomery Combustion Turbine	2019	Retired 2012

3 IPL's petition, page 4.
4 *Id.*
5 *Id.*
6 *Id.*
7 *Id.*
8 *Id.*
9 IPL's petition, page 17.
10 IPL's petition, page 4.
11 IPL's petition, page 5.

IPL completed an evaluation of the remaining lives of its other generating units and determined not to request a change to the remaining lives of these remaining generating units based on current information.[12] The cumulative effect of the changes results in an increase to IPL's 2013 depreciation expense by approximately $63,581 on a Minnesota jurisdictional basis.[13] IPL's proposed accrual rate also reflects the changes in plant balances during the year 2012.

III. DEPARTMENT ANALYSIS

The Department's analysis includes the following sections:

- filing requirements and depreciation rules;
- comparison of resource plan and remaining lives;
- proposed changes to remaining lives and salvage rates;
- present versus proposed depreciation expense;
- reserve ratio analysis; and
- effective date of depreciation rates.

A. FILING REQUIREMENTS AND DEPRECIATION RULES

This filing is IPL's annual depreciation study. The Commission requires utilities to file an annual depreciation study when the remaining live technique is used, except for years where utilities are required to file a more extensive five-year depreciation study. The Company filed its most recent five-year depreciation study in Docket No. E,G001/D-10-747.

Minnesota Rules part 7825.0700 requires the following depreciation schedules and documentation:

- plant in service;
- analysis of depreciation reserve;
- summary of annual depreciation accruals;
- accounts studied and results;
- major future additions or retirements; and
- any additional documentation necessary to support findings of the study.

The Department reviewed IPL's petition and concludes that IPL provided information to meet the filing requirements specified above.

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[12] IPL's petition, page 4.
[13] IPL's petition, page 2.

Minnesota Rules part 7825.0500, subp. 7 states:

> Depreciation accounting means a system of accounting which aims to distribute cost or other basic value of tangible capital assets, less salvage, if any, over the estimated useful life of the unit, which may be a group of assets, in a systematic and rational manner.

In determining the method to calculate the amount to distribute each year, Minnesota Rules part 7825.0800 further states that “the Commission prescribes the straight-line method for calculating depreciation, excluding depletion, accruals. . . . [a]ny exceptions to these methods require specific justification and certification by the commission.” Use of straight-line accounting methods for depreciation minimizes intergenerational ratepayer subsidies. These subsidies arise in depreciation settings when ratepayers of one generation pay a greater share of the depreciation expense than ratepayers in another generation.

For determining the estimated useful life, Minnesota Rules part 7825.0800 states that “no specific methods are prescribed by the commission in estimating service lives and salvage values. The methods selected by each utility will be reviewed for appropriateness by the department staff as part of the utility's certification filing.” Further, Minnesota Rules part 7825.0500, subp. 10 defines “probable service life” as meaning “that period of time extending from the date of its installation to the forecasted date when it will probably be retired from service.”

On page 17 of its petition, IPL stated:

> IPL’s methodology for its proposed revision for most accounts is based on the straight line method using the average service life procedure and the remaining life basis. For certain General and Common Plant accounts, the annual depreciation was based on amortization accounting. These methods are implemented by estimating probable retirement dates, survivor curves and net salvage of the property and then spreading the remaining depreciable investment, adjusted for salvage, over the remaining life. Valuation and Rate Division of Gannett Fleming, Inc. (Gannett Fleming) have reviewed IPL’s estimated remaining life of the property, using a working knowledge of each account, in arriving at the proposed depreciation rate revisions contained in the 2013 Depreciation Study.

The Department reviewed the instant petition and concludes that IPL’s depreciation methodology complies with Minnesota Rules parts 7825.0500, subp. 7 and 7825.0800.

B. COMPARISON OF RESOURCE PLAN AND REMAINING LIVES

In last year's depreciation filing in Docket No. 12-680, the Commission required that IPL provide, in its next depreciation filing, a table comparing the remaining lives used for depreciation purposes and the lives used for resource planning purposes, including explanations of any differences between the two lives. In part 7 of its petition, IPL provided this information.

Based on its review, the Department concludes that IPL has reasonably explained the differences in the Company's electric plant remaining lives used for depreciation purposes versus those used for resource planning purposes.

The Department continues to conclude that it is useful to reconcile the resource planning lives and the remaining lives for purposes of depreciation to obtain a better understanding of future plans by the Company to maintain production facilities. The Department supports the requirement to continue the comparison and recommends that the Commission require IPL to provide a table (including all electric generation facilities) in future depreciation filings comparing the resource planning lives and remaining lives for purposes of depreciation and explain any differences.

C. PROPOSED CHANGES TO REMAINING LIVES AND SALVAGE RATES

The Department examined IPL's petition for reasonableness of the Company's Minnesota and Iowa electric and gas plant proposed service lives, salvage values, and changes in accruals. As noted above, IPL proposed changes to retirement dates and net salvage percentages for some of its generating facilities. The extended lives for the Neal Generating Station -Units 3 and 4 are consistent with the operator's (MidAmerican Energy Company) retirement dates.[14] The reduced life for the two Dubuque diesels (oil-filed peaking units) located at the Dubuque generating station is consistent with the retirement date (2014) for Dubuque generating station units 3 and 4. The lives of the Lansing Generating Station – Unit 3 and the Montgomery combustion turbine were adjusted to reflect the fact that the plants were retired. Based on the Department's review, IPL appears to have reasonably supported its proposed changes in service lives. The Department notes that no changes were proposed to either the gas plant lives or salvage rates.

14 IPL's petition, pages 7-8.

IPL proposed the following changes to the electric plant salvage rates:[15]

Dubuque Units 3 & 4:	Current %	Proposed %
Structures & Improvements	-30	-3
Engines	-20	-5
Generators	-10	-15
Accessory Electric Equipment	-5	0
Misc. Plant Equipment	-5	0
Centerville CT Unit 1:		
Generator	-10	-15

The Department concludes that the proposed salvage rates for Dubuque Units 3 and 4 are reasonable since the proposed retirement dates are farther out. However, it appears that the proposed salvage rate for the Centerville CT Unit 1 may not be accurate since there is no associated increase in depreciation expense on IPL's petition, part 1, page 3 of 6. The Department requests that IPL confirm in its Reply Comments whether the proposed salvage change from negative 10 to negative 15 percent for Centerville CT Unit 1's generator is accurate. If so, the Department requests that IPL provide support for the proposed change in the salvage rate.

D. PRESENT VERSUS PROPOSED DEPRECIATION EXPENSE

IPL stated on page 2 of its petition that the cumulative effect of its changes results in an increase to IPL's 2013 depreciation expense by $63,581 on a Minnesota jurisdictional basis.

E. RESERVE RATIO ANALYSIS

The reserve ratios for the Minnesota jurisdictional electric and gas facilities for the last five years are presented below:[16]

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15 IPL's petition, part 6, pages 8 – 18 of 18.

16 The account balances in these summary tables are from IPL's *Electric Jurisdictional Annual Report* and the *Gas Jurisdictional Annual Report* (AJR) which differ from the depreciation study amounts in that the AJR shows allocated plant and reserves and the depreciation study shows plant and reserves by location.

Minnesota Electric Plant, Reserve Ratio

Year	Plant Balance	Reserve Balance	Reserve Ratio	Change In Reserve	Ratio Reserve Change to Plant Balance
2012	$327,904,156	$138,562,070	42.26%	$9,904,630	3.02%
Revised 2011[17]	$306,994,537	$128,657,440	41.91%	$7,308,392	2.38%
2011	$306,897,773	$128,641,468	41.91%	$7,292,420	2.37%
2010	$293,693,817	$121,349,048	41.32%	$(1,475,676)	0.50%
2009	$281,998,954	$122,824,724	43.56%	$8,288,655	2.93%
2008	$231,726,306	$114,536,069	49.43%	$(636,148)	0.27%

Minnesota Gas Plant, Reserve Ratio

Year	Plant Balance	Reserve Balance	Reserve Ratio	Change In Reserve	Ratio Reserve Change to Plant Balance
2012	$18,597,433	$8,551,651	45.98%	$527,939	2.84%
2011	$17,765,709	$8,023,712	45.16%	$380,037	2.13%
2010	$17,055,728	$7,643,675	44.82%	$431,757	2.53%
2009	$16,345,761	$7,211,918	44.12%	$355,838	2.18%
2008	$15,537,991	$6,856,080	44.12%	$201,024	1.29%

The above reserve ratios indicate the percentage of plant depreciated or expensed by the end of each fiscal year. As of the end of 2012, approximately 42.26 percent of electric utility plant and approximately 45.98 percent of gas utility plant has been expensed. The column showing the ratio of the change in reserve to the plant balance indicates the overall depreciation rate for electric and gas plant of approximately 3.02 and 2.84 percent, respectively.

F. EFFECTIVE DATE OF DEPRECIATION RATES

IPL requested that the effective date for its proposed depreciation rates be set at January 1, 2013. This date is consistent with Commission Orders in previous IPL depreciation studies, and is reasonable in this docket.

[17] In its May 1, 2012 AJR, IPL footnoted that the beginning balances of plant and depreciation reserve do not tie to the prior year's ending balances "due to 2011 E-33 line 362 [Structure & Improvements] including an asset retirement cost that was not applicable to Minnesota." Thus, the Department revised the 2011 balances in this table to reflect the corrected amounts.

IV. SUMMARY OF RECOMMENDATIONS

The Department recommends that the Commission continue to require IPL to provide a table (including all electric generating facilities) in its next depreciation filing comparing remaining lives used for depreciation purposes and the lives used for resource planning purposes and explain any differences between the two lives.

The Department recommends that the Commission approve IPL's proposed remaining lives, salvage values, and resulting depreciation rates, effective January 1, 2013.

The Department requests that IPL confirm in its Reply Comments whether the proposed salvage change from negative 10 to negative 15 percent for Centerville CT Unit 1's generator is accurate. If so, the Department requests that IPL provide support for the proposed change in the salvage rate.

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