Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: November 19, 2015..**Agenda Item # **6**

Company: Greater Minnesota Gas, Inc.

Docket No. G-022/D-15-671

In the Matter of Greater Minnesota Gas, Inc.'s Petition for Approval of Its 2015 Depreciation Certification

Issue: Should the Commission approve Greater Minnesota Gas, Inc.'s 2015 depreciation certification?

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Relevant Documents

Greater Minnesota Gas – Initial Filing ....July 16, 2015
Greater Minnesota Gas – Supplemental Filing.. August 3, 2015
Department - Comments ....September 16, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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November 5, 2015

Statement of the Issue

Should the Commission approve Greater Minnesota Gas, Inc.'s (GMG) Petition for Approval of its 2015 depreciation certification?

Background

July 16, 2015: GMG filed for Approval of a Depreciation Certificate pursuant to Minn. Stat. 216B.11 and Minn. Rules, Parts 7825.0500 to 7825.0900. This submission is also required by the Minnesota Public Utilities Commission's (Commission) May 4, 2010 Order in Docket No. G-022/D-10-78 which required GMG's next depreciation study to be filed by August 1, 2014 for GMG's third depreciation study.

In its Petition, GMG requested "approval of depreciation and salvage rates that are consistent with the prior depreciation order." In addition, GMG proposed to fund the salvage account by approximately $516,000 over a five-year period due to not implementing the Commission's May 4, 2010 Order.

GMG requested an effective date of January 1, 2015 for the depreciation rates.

August 3, 2015: GMG filed additional information to supplement its initial filing.

September 16, 2015: The Department reviewed GMG's Petition and concluded that with the August 3, 2015 Supplement, GMG provided the information needed to meet the filing requirements.

Party Positions

Due Date of Filing

The Department noted that the Commission's May 4, 2010 Order required GMG to file its next five-year study by August 1, 2014. Without requesting an extension of time, the Company filed its Petition almost a year late on July 16, 2015. The Department also stated that GMG has been consistently late in filing their Annual Gas Service Quality Reports and their Cold Weather Rule Reports.[1]

This issue was addressed by the Department in Docket No. G-022/M-15-434. The Department concluded that quality control and oversight were lacking within GMG and recommended that the Commission require GMG "to obtain an independent audit of its data collection practices and procedures in place for regulatory compliance and provide the audit results to the Commission." The Department recommended that the audit "firm should be independent of GMG, have expertise in data collection, reporting, and regulated utility practices, and the audit should identify whether the Company's data collection and regulatory practices are reasonable, prudent, and consistent with standard utility practices. Currently, this docket is pending a Commission

[1] Staff also notes that because GMG was undergoing audits, GMG requested two-month filing extensions for submitting its 2013 and 2014 Annual Jurisdictional Reports (AJRs), in Docket #s 13-04 and 14-04.

decision.

Proposed Changes

During its review, the Department found that GMG made two changes to its average service life values from the May 4, 2010 Order. First, the Company combined the Residential Regulators and Commercial Regulators accounts. This combination increased the Residential Regulators life by two years to match the Commercial Regulators life of 42 years. Second, GMG combined the Office Furniture and Equipment and Computer Equipment accounts. This combination decreased the Office Furniture & Equipment life by two years to match the Computer Equipment life of 6 years. The Department does not object to either change since the changes are reasonable.

The Department recommended that the Commission approve GMG's proposed average service lives, salvage rates, and resulting annual depreciation rates as shown in Table 1 below. The Company agreed with the Department's recommendation and stated the recommendation is reasonable.

Table 1
Summary of GMG's Present & Proposed
Service Lives & Salvage Values

		Approved In 10-78 ASL	Proposed in 15-671 ASL	Approved in 10-78 Salvage	Proposed in 15-671 Salvage
Distribution Plant					
376	Mains, Plastic & Steel	50	50	-27	-27
378	TBS & Dist. Regulators	42	42	-21	-21
380	Services Lines, Plastic	50	50	-40	-40
381	Meters, Res. & Comm.	30	30	0	0
382	Meters Settings, Res. & Comm.	50	50	-35	-35
383	Regulators, Residential[2]	40	**42**	-35	-35
383	Regulators, Commercial	42	42	-35	-35
387	Other Equipment	8	8	0	0
General Plant					
390	Office Furnishings[3]	10	10	0	0
391	Computer Equipment	6	6	0	0
391	Office Furniture & Equipment[4]	8	6	0	0
392	Vehicles	3	3	30	30
397	Communication Equipment	10	10	0	0

[2] In GMG's Attachment B, Proposed Depreciation and Salvage Rates, the Company combined the Residential Regulators and Commercial Regulators accounts. This combination increases the Residential Regulators life by two years to match the Commercial Regulators life of 42 years.
[3] This account has had a zero balance since 2011.
[4] In GMG's Attachment B, Proposed Depreciation and Salvage Rates, the Company combined the Computer Equipment and Office Furniture and Equipment accounts. This combination decreases the Office Furniture & Equipment life by two years to match the Computer Equipment life of 6 years.

Funding of Salvage Account

In its Petition, GMG explained that the Company never implemented the ordered depreciation and salvage rates established in the Commission's May 4, 2010 Order. The Company determined that the result of not following the Commission's Order resulted in an underfunded depreciation reserve at the required salvage rate. GMG provided a summary of annual depreciation accruals which showed an accumulated depreciation underage balance of $516,239. GMG proposed funding the deficiency over a five-year period beginning January 1, 2015.

The Department reviewed the calculations of the accumulated salvage and found small calculation discrepancies in two accounts: House Regulators (Account 383) and Office Furniture and Equipment (Account 391), and the Transportation Equipment (Account 392). The Department's revised accumulated depreciation variance increased from $516,239 to $584,624 as shown in Table 2.

Table 2: Initial and Revised Accumulated Depreciation Variance

Acct	Description	Initial Accumulated Depreciation Variance	Revised Accumulated Depreciation Variance
376	Mains	($327,259)	($327,259)
378	Measuring & Regulating Station Equipment – General	($33,986)	($33,986)
380	Services	($158,931)	($158,931)
382	Meter Installations	($25,501)	($25,501)
383	House Regulators	($3,090)	$444
391	Office Furniture & Equipment	$0	($6,831)
392	Transportation Equipment	$32,528	($32,560)
	Total	($516,239)	($584,624)

The Department calculated the annual amount of the deficiency at $116,925 per year ($584,624/5). GMG agreed with the Department's revised calculations as shown in Table 2. The Department recommended that the Commission approve GMG's revised accumulated salvage funding.

Staff Analysis

While the parties are in agreement about the issues raised above, there is one additional issue Staff would like the Commission to consider before certifying GMG's five-year depreciation study.

GMG was formed in 1995 and began installing mains and services in 1996. GMG's system consists almost entirely of plastic mains and service lines. The only steel pipe the Company uses on its system is at town border stations, on bridge crossings, at railroad crossings and pumping stations.

The Company completed its five-year depreciation study in-house. The Company stated that because GMG's system is still relatively new, GMG does not have sufficient empirical data to engage in a meaningful study of its own system's service lives and salvage values. In preparing its study GMG relied on the information made available via depreciation studies of other natural gas utilities that have historic information available to them. GMG stated that its depreciation rates are reasonable and consistent with the approach used by other natural gas utilities.

In the Company's previous five-year depreciation study (Docket No. G022/D-10-78) it stated that it based many of the conclusions regarding the average service life of its system components and salvage values were derived from CenterPoint and Xcel's studies. The Company calculated the average service life and salvage value of its mains account as follows:

> *CenterPoint established an average service life of 47 years for steel mains and 41 years for plastic mains and Xcel used 45 years for both plastic and steel mains, GMG used 50 years for both plastic and steel mains. The Company chose 50 years primarily because all of GMG's mains were installed after 1995, all of the steel mains are coated and all of the plastic main was manufactured after the initial material problems with polyethylene pipe were resolved. Based on CenterPoint using a net salvage value of -27% for plastic mains, and Xcel's salvage value of -15% for plastic mains and -30% for steel mains. GMG proposed to use -27% salvage value for both plastic and steel mains.*

The emphasis of a five-year depreciation study is to determine the mortality characteristics of the property utilized by the company in providing service to its customers. The scope of the study usually includes analysis of the company's historical data, discussions with management to identify prior and prospective factors affecting the company's plant in service, as well as interpretation of past service life data experience and future life expectancies. The mortality phase of a book depreciation study identifies three mortality characteristics:

1. Average service life or life span;
2. Retirement dispersion; and
3. Net salvage.

Once these characteristics are determined, the calculations are mechanical.

The Commission may determine that GMG's method is perfectly reasonable. Alternatively, the Commission could require a five-year depreciation study to be completed by an independent party at some point in the future. As far as Staff can tell, the issue of the study being conducted in-house by GMG has not been brought to the attention of the Commission in previous filings. Staff's main goal in raising the issue is to insure that the Commission is aware of this information and is not advocating for one position over another.

Decision Alternatives

1.) Determine the Company filed its five-year depreciation study in a timely manner. OR

2.) Determine the Company did not file its five-year depreciation study in a timely manner.

3.) Approve GMG's proposed average service lives, salvage rates, and resulting annual depreciation rates. OR

4.) Do not approve GMG's proposed average service lives, salvage rates, and resulting annual depreciation rates.

5.) Require GMG to file its next five-year depreciation study by August 1, 2020, beginning with detail for the year 2015. OR

6.) Require the Company to file its next five-year study on the date the Commission determines is appropriate.

7.) Approve GMG's proposed salvage funding of $584,624 over a five-year period ($116,925/year) beginning January 1, 2015. OR

8.) Require the Company to fund its salvage account in some other manner as determined by the Commission.

9.) Determine the Company's method of conducting its five-year depreciation study is appropriate. OR

10.) Require the Company to have an independent depreciation study of its assets at some point in the future which the Commission finds appropriate.

Staff Recommendation

2, 3, 5, 7, 9