MINNESOTA DEPARTMENT OF COMMERCE

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December 28, 2016

Daniel P. Wolf
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. G004/D-16-466

Dear Mr. Wolf:

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

Great Plains Natural Gas Co.'s (Great Plains) Annual Depreciation Study.

The petition was filed on May 27, 2016 by:

Tamie A. Aberle
Director of Regulatory Affairs
Great Plains Natural Gas Company
705 West Fir Avenue
P.O. Box 176
Fergus Falls, MN 56538-0176

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

Sincerely,

/s/ ANGELA BYRNE
Financial Analyst
651-539-1820

AB/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G004/D-16-466

I. SUMMARY OF GREAT PLAINS' PROPOSAL

On May 27, 2016, Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc. (Great Plains or the Company) filed a petition with the Minnesota Public Utilities Commission (Commission) requesting approval of the depreciation parameters and rates proposed in its 2016 depreciation study (2016 Depreciation Study). The 2016 Depreciation Study is the fourth update to the Company's most recent comprehensive five-year depreciation study, filed in Docket No. G004/D-12-565 (2012 Depreciation Docket). The average service lives and salvage rates proposed in the instant Docket are unchanged from those proposed in the 2013 Depreciation Study, although, as described below, remaining lives have been updated to reflect the passage of time and plant activity (*i.e.*, additions, retirements, transfers, etc.). The Company stated that the application of the proposed lives and salvage rates to December 31, 2015 plant and reserve balances results in 2016 depreciation expense of $1,957,417, or $43,160 higher than depreciation expense would be under current depreciation rates. The proposed depreciation parameters yield a composite depreciation rate of 4.28 percent for 2016, or 0.10 of a percentage point higher than the composite depreciation rate yielded by currently approved depreciation parameters (4.18 percent).

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) examined Great Plains' 2016 Depreciation Study for compliance with filing requirements and previous Commission Orders, and for the reasonableness of the proposed remaining lives, salvage rates, and depreciation rates.

A. COMPLIANCE WITH FILING REQUIREMENTS AND COMMISSION ORDERS

Minnesota Statutes Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900 require public utilities to seek Commission certification of their depreciation rates and methods. Utilities must use straight-line depreciation unless the utility can justify a different method. Additionally, utilities must review their depreciation rates annually to determine if they are generally appropriate and must file depreciation studies at least once every five years. Once certified by order, depreciation rates remain in effect until the next certification.

Great Plains employs a straight-line depreciation method and files annual depreciation studies with the Commission. The Department concludes that Great Plains' 2016 Depreciation Study meets all relevant filing requirements.

The Company has also complied with the requirement to propose depreciation rates that are effective January 1, 2016. The Commission's Order dated March 21, 2007 in Docket No. G004/D-06-700 required that all future remaining life depreciation and amortization studies be effective on January 1 of the year for which the study is performed starting with the depreciation study performed for year-end 2007. Great Plains' 2016 Depreciation Study appropriately proposes depreciation rates to be effective January 1, 2016 based upon December 31, 2015 plant and reserve balances.

B. REASONABLENESS OF PROPOSED REMAINING LIVES, SALVAGES, AND IMPACT OF RESULTING DEPRECIATION ACCRUALS

1. Proposed Lives

As noted above, Great Plains conducted a comprehensive five-year depreciation study in the 2012 Depreciation Docket in which the Company analyzed the retirement experiences of its plant accounts to determine appropriate average service life (ASL) assumptions. Great Plains proposed, and the Commission approved, the same ASLs in the 2013, 2014, and 2015 Depreciation Dockets. The Company also proposed the same ASLs in its current Petition. The Department concludes that the proposed ASLs continue to be reasonable.

The Department notes, however, that while the Company proposed no changes to its assumed ASLs, the Company proposed changes to the remaining lives of several accounts. Generally, an account's remaining life is calculated as a function of the account's assumed ASL and the age of property in the account, which is tracked by vintage. Thus, even when an account's assumed average life does not change, significant additions can lengthen the account's remaining life, as the new property will be expected to survive longer than older property in the account. Similarly, significant retirements of older property in an account can also lengthen the account's remaining life, as the weighted average age of the property in the account would decrease. Barring a change the age-makeup of property in an account, its remaining life would be expected to decrease by approximately one year from one depreciation study to the next if the account's average service life does not change.[1]

[1] Due to the probabilistic nature of the remaining life calculation, the remaining life of an account that has had no additions, retirements, transfers, etc., would actually be expected to decline by slightly less than one year.

Most of Great Plains' proposed changes were due to a large proportion of additions within the asset group, or from older vintage property becoming fully depreciated. In one case, the change in remaining life was due to a transfer of $65,685 of property between Account 367.40-.42 Railroad, River & Highway Crossings and Account 367.00 Transmission mains, as discussed in Docket No. G004/D-14-425.

Based on the above discussion, the Department concludes that all of Great Plains' proposed remaining lives are reasonable.

2. Salvage Values

Great Plains has proposed no changes relative to the salvage rates proposed since the 2012 Depreciation Docket. The Department concludes that the Company's proposed salvage rates are reasonable.

C. PLANT AND RESERVE ACTIVITY AND BALANCES

Great Plains' plant activity, accrual rates, and reserve ratios for all of its plant accounts for the last five years are presented below:

Great Plains Natural Gas Company
Reserve Ratio Summary
2011-2015
($)

Year	Increase in Plant	Gross Plant Balance	Annual Depr. Provision	Accrual Rate	Increase in Reserve	Reserve Balance	Reserve Ratio
2015	6,894,986	48,355,259	1,828,985	3.78%	993,921	26,954,930	55.74%
2014	2,984,892	41,460,273	1,515,365	3.65%	942,482	25,961,009	62.62%
2013	2,939,941	38,475,381	1,404,487	3.65%	1,134,601	25,018,527	65.02%
2012	1,815,776	35,535,440	1,491,215	4.20%	776,629	23,883,926	67.21%
2011	1,467,710	33,719,664	1,472,910	4.37%	587,070	23,107,297	68.53%

Source: Great Plains' Depreciation Studies

Great Plains' accrual rate increased from 3.65% in 2014 to 3.78% in 2015. The Company's overall reserve ratio decreased from 62.62% in 2014 to 55.74% in 2015. The higher depreciation provision and increase in accrual rate in 2015 is consistent with the large increase in plant in 2015. Additions in 2014 received only a partial year of depreciation expense but a full year in 2015, which increases the accrual rate, all else held equal. Additions in 2015 received a partial year of depreciation expense (the numerator in the accrual rate calculation) but were fully accounted for in the gross plant balance (the denominator of the accrual rate calculation), which decreases the accrual rate, all else held equal.

The lower reserve ratio is consistent with having a large increase in the gross plant balance (the denominator of the reserve ratio), but only having a partial year of depreciation expense reflected in the reserve balance (the numerator of the reserve ratio). All else held equal in 2016, the reserve ratio would increase as 2015 additions receive a full year of depreciation expense.

III. CONCLUSION AND RECOMMENDATIONS

After review, the Department concludes that the depreciation parameters proposed in Great Plains' 2016 Depreciation Study and the resulting depreciation rates are reasonable. The Department recommends that the Commission:

1. approve the depreciation parameters and depreciation rates proposed in Great Plains' 2016 Depreciation Study; and

2. require Great Plains to file a five-year depreciation study by June 1, 2017.

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