

November 19, 2018

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

RE: **Letter in Lieu of Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/D-18-544

Dear Mr. Wolf:

On November 5, 2018, the Minnesota Department of Commerce (Department) filed Comments in the above-referenced proceeding recommending approval, with modifications, of Minnesota Power's (MP or the Company) Petition. In those Comments, among other things, the Department recommended that the Minnesota Public Utilities Commission (Commission) require MP to record \$2.8 million of supplemental depreciation expense during 2018 to correct errors in the Company's calculations of the 2017 depreciation accruals for Boswell Unit 3 and the Boswell Common Facilities.

On November 15, 2018, MP filed Reply Comments agreeing with the Department's recommendations, but requesting that it be permitted to amortize the \$2.8 million in supplemental depreciation expense over a period of five years, rather than recording all of it in 2018. The Company stated that if it were to file a rate case during the amortization period, it would exclude the amortizations in order to ensure that ratepayers would not be impacted.

The main intention behind the Department's recommendation was to ensure that ratepayers bear no additional expense as a result of the errors in MP's 2017 depreciation calculations. Based on MP's stated intent to ensure that there are no impacts on ratepayers, the Department understands and appreciates that MP shares this intention. The Department notes, however, that in order to ensure that the errors would have no impacts on ratepayers if the Company were to file a rate case during the amortization period, MP would not only have to remove the amortization expense from its revenue requirement, but it would also have to adjust its rate base to set it at the level it would have been had the errors not occurred.

While the Department would prefer the administratively simpler approach of correcting the errors by recording one-time supplemental depreciation accruals during 2018, as long as MP fully accounts for and removes any potential impacts of the errors from any future request for cost recovery, the Department has no strong objections to allowing the Company to amortize the expense over a period of up to five years.

Additionally, the Department notes that in its November 5, 2018 Comments, it recommended that the Commission require MP to present in its next remaining life depreciation petition a proposal to depreciate the largest structures included in plant account 390 Structures and Improvements individually, while continuing to

apply group depreciation to the smaller structures in the account. The Department inadvertently omitted this recommendation from the final list of recommendations in the conclusion of those Comments.

For the Commission's convenience, the Department includes below a complete list of its recommendations for the Commission in this Docket, with edits and additions to the recommendations included at the conclusion of the Department's November 5, 2018 Comments indicated in bold. The Department recommends that the Commission:

1. approve Minnesota Power's proposed remaining lives;
2. deny Minnesota Power's request to update its salvage rates and approve the salvage rates approved Docket No. E015/D-17-118, as shown in Appendix A-1 to the Company's Petition;
3. require Minnesota Power to record, **either during 2018 or over a period of time that the Commission determines to be reasonable**, supplemental depreciation expense of \$2.0 million for the Boswell Common Facilities, and \$0.8 million for Boswell Unit 3;
4. **require Minnesota Power to include in any future request for cost recovery all adjustments necessary to ensure that ratepayers bear no additional expense as a result of the errors in the 2017 depreciation accruals for Boswell Unit 3 and the Boswell Common Facilities;**
5. require MP to include in future depreciation filings a comparison of the remaining lives used in its depreciation filing to the operating lives used in the Company's most recent integrated resource plan and explain any differences;
6. **require Minnesota Power to include in its next depreciation petition a proposal to depreciate the largest structures included in plant account 390 Structures and Improvements individually, while continuing to apply group depreciation to the smaller structures in the account, that explains how Minnesota Power will:**
 - **determine which structures should be removed from the group to be depreciated separately, and which should remain in the group;**
 - **allocate the existing depreciation reserve among structures that should be removed from the larger group and those that remain in the group;**
 - **determine the remaining lives for structures that should be removed from the group and the remaining life for the group;**
7. require MP to make its next depreciation filing on or before September 2, 2019 to establish depreciation parameters and rates to be effective January 1, 2019.

Sincerely,

/s/ Craig Addonizio
Financial Analyst

CA/jl

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
Letter in Lieu of Response Comments**

Docket No. E015/D-18-544

Dated this 19th day of November 2018

/s/Sharon Ferguson

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