

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer Chair
Ken Nickolai Commissioner
Marshall Johnson Commissioner
Phyllis Reha Commissioner
Thomas Pugh Commissioner

In the Matter of Aquila Networks-PNG ISSUE DATE: JANUARY 27, 2005
and Aquila Networks-NMU DOCKET NO. G007/D-04-1005
Request for Certification of 2004 and G011/D-04-1006
Depreciation Rates ORDER CERTIFYING
DEPRECIATION RATES AND METHODS

PROCEDURAL HISTORY

On July 1, 2004, Aquila, Inc. d/b/a Aquila Networks-PNG (PNG) and Aquila Networks-NMU (NMU or together the Companies) filed its depreciation studies for 2004, based on its review of depreciation rates under Minn. Rules part 7825.0600, subps. 2 and 3. Both PNG and NMU filed five-year depreciation studies. The Department of Commerce examined the studies, including the Companies' lives and net salvage estimates, and recommended approval.-

No party opposed approval.

FINDINGS AND CONCLUSIONS

The depreciation petition submitted by the Companies used the remaining-life method of straight-line depreciation to calculate depreciation accruals, as required by Minn. Rules part 7825.0800. The Commission finds the resulting depreciation rates and salvage values for all accounts to be reasonable, proper, and adequate under Minn. Stat. §216B.11 and Minn. Rules part 7825.0600.

Both PNG and NMU request changes to their service lives and salvage rates. The proposed remaining lives and salvage rates are supported by the Companies' analysis and will be approved.

The depreciation rates and methods certified in this Order are binding on all future rate proceedings and remain in effect until the next depreciation certification or until otherwise changed by the Commission. (Minn. Rules part 7825.0900.) Specific dollar amounts of gross plant, depreciation reserve, annual

accrual, and dollars to be allowed as additional depreciation are subject to audit, however, and the inclusion of items in this Order for depreciation purposes does not guarantee their inclusion in the rate base and income statement for ratemaking purposes.

Companies are required by law to review their depreciation rates annually to ensure that they are still generally appropriate. (Minn. Rules part 7825.0600, sups. 2 and 3.) The Commission will require the Companies to file a remaining life depreciation petition based on its next annual review.

ORDER

1. The Commission certifies the following lives and future net salvage values on the basis of the depreciation petition submitted by PNG:

| Acct. No. | <u>Class of Utility Plant</u> | <u>(Years)</u> | <u>Salvage (%)</u> |
|----------------------------|----------------------------------|----------------|--------------------|
| Production Plant: | | | |
| 305.00 | Structures & Improvements | 17 .18 | -10 .0 |
| 311.00 | Liquefied Petroleum Gas Equip. | 12 .84 | -10 .0 |
| Transmission Plant: | | | |
| 367.00 | Mains | 39 .91 | -10 .0 |
| 369.00 | Meas. & Reg. Equip. | 24 .36 | -10 .0 |
| Distribution Plant: | | | |
| 375.00 | Structures & Improvements | 33 .09 | |
| 376.00 | Mains | 35 .75 | -60 .0 |
| 378.00 | Meas. & Reg. Equip. _ General | 31 .46 | -5 .0 |
| 380.00 | Services | 32 .50 | -80 .0 |
| 381.00 | Meters | 24 .94 | |
| 382.00 | Meter Installations | 31 .17 | -60 .0 |
| 383.00 | House Regulators | 31 .44 | -25 .0 |
| 385.10 | Meas. & Reg. Equip. - Industrial | 27 .98 | 10 .0 |
| 385.20 | Large Volume Meters | 22 .63 | 20 .0 |
| General Plant: | | | |
| 390.00 | Structures & Improvements | 31 .05 | |
| 391.00 | Office Furniture & Equip. | 12 .13 | |
| 391.10 | Computer Equipment | 4 .10 | |
| 392.00 | Transportation Equipment | 1 .45 | 20 .0 |

394.00 Tools and Work Equipment 13 .39
 396.00 Power Operated Equipment 4 .56 15 .0
 397.00 Communication Equipment 3 .15

2. The Commission certifies the following lives and future net salvage values on the basis of the depreciation petition submitted by NMU:

| Acct. No. | Remaining Life | Estimated Future Net | Class of Utility Plant | (Years) | Salvage (%) |
|-----------|----------------|----------------------|------------------------|---------|-------------|
|-----------|----------------|----------------------|------------------------|---------|-------------|

Transmission Plant:

367.00 Mains 40 .12 -10 .0
 369.00 Meas. & Reg. Equip. 23 .32 -10 .0

Distribution Plant:

375.01 Structures & Improvements 41 .24 -10 .0
 375.02 Structures & Improvements - TBS 30 .43 -10 .0
 376.00 Mains 36 .88 -35 .0
 378.00 Meas. & Reg. Equip. - General 26 .33 -5 .0
 379.01 Meas. & Reg. Equip. - City Gate 13 .59 -5 .0
 380.00 Services 25 .62 -60 .0
 381.00 Meters 24 .94
 382.00 Meter Installations 34 .82 -60 .0
 383.00 House Regulators 23 .81 -15 .0
 385.00 Meas. & Reg. Equip. - Industrial 19 .86 -5 .0
 385.20 Large Volume Meters 22 .63 20 .0

General Plant:

390.01 Structures & Improvements 33 .85
 391.01 Office Furniture & Equip. 11 .36
 391.02 Computer Equipment 3 .69
 392.00 Transportation Equipment 1 .84 30 .0
 394.00 Tools, Shop & Garage Equip. 12 .38
 396.00 Power Operated Equip. 4 .30 25 .0
 397.01 Communication Equip. 5 .17
 391.02 Misc. Equip. 2 .50

3. Require that in the Companies' future depreciation studies, they include a section that lists each specific change proposed to the depreciation parameters and fully explains the reasons for making each change.

4. Accruals to the depreciation reserve for each remaining life account shall be calculated by taking the original cost of depreciable plant in the account, subtracting its estimated future net salvage and its associated depreciation reserves, and dividing the difference by the estimated remaining life of the surviving plant in the account.
5. In the event that any class of plant shall become fully depreciated by the use of these rates, then no further depreciation accrual for such class of plant shall be made.
6. By June 1, 2005, the Companies shall file a remaining life depreciation report based on its annual review of depreciation rates, remaining lives and net salvage values.

7. The rates certified by this Order are effective January 1, 2004. The Companies' next five- year depreciation studies are due by June 1, 2008.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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