BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

In the Matter of the Annual Depreciation Filing by Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc.	ISSUE DATE: April 7, 2005 DOCKET NO. G-004/D-04-817 ORDER CERTIFYING REMAINING LIVES AND REQUIRING ADJUSTMENTS TO DEPRECIATION RATES

PROCEDURAL HISTORY

On June 1, 2004, Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc. (Great Plains or the Company) filed a annual Depreciation Study. The Company submitted additional schedules omitted from the initial filing and a revised study on July 29 and August 26, 2004 respectively.

On September 1, 2004, the Minnesota Department of Commerce (the Department) filed comments recommending approval of the service lives and corrections relating to prior year depreciation accruals.

On September 27, 2004, Great Plains filed reply comments disagreeing with the Department's recommendation that the Commission order the Company to correct prior year depreciation accruals.

The Commission met on March 10, 2005 to consider this matter.

FINDINGS AND CONCLUSIONS

This Order will address five issues raised in this docket: first, whether the depreciation rates and service lives proposed by the Company are reasonable; second, when should the remaining lives become effective; third, how should the Company's new account regarding trailers be handled; fourth, what corrective action, if any, should be required due to the Company's failure to implement the Commission's January 24, 2003 Order in Docket No. G-004/D-02-1438 before January 1, 2004; and fifth, should the Company be required to revise retirements for 2002 and 2003 using the vintage year method approved in the Commission's January 24, 2003 Order.

A. Proposed Depreciation Rates and Service Lives

1. Great Plains' Proposal

Great Plains stated that calculating depreciation using present rates on depreciable plant in service as of December 31, 2003 results in annual depreciation expense of $1,108,215. Annual depreciation expense using the proposed rates would be $1,118,157, an increase of $9,942. The composite annual depreciation rate under present rates is 4.17 percent, while the proposed composite depreciation rate is 4.20 percent.

The Company stated that the proposed depreciation rates were determined by studying the Company's historical investment data together with the interpretation of future life expectancies which will have a bearing on the overall service life of the Company's property.

The Company stated that the utilization of the proposed depreciation rates results in rates which will continuously true up the Company's level of capital recovery over the life of each asset group.

2. The Department's Comments and Recommendation

The Department stated that the adjustments to remaining lives reasonably reflect 1) the passage of two years and 2) the plant activity reported to have occurred during 2002 and 2003. Subject to the comments on issues addressed below, the Department recommended that the Commission certify Great Plains' proposed remaining lives.

3. Commission Analysis and Action

Except as clarified and modified with respect to the issues addressed below, the Commission finds that Great Plains' proposed remaining lives are reasonable and will certify them.

B. Effective Date of Remaining Lives

Great Plains requested that the Commission issue an Order certifying the Company's Revised Depreciation rates effective as of the date of the Commission's Order and the Department proposed a July 1, 2004 effective date.

The Commission prefers an effective date reasonably close to the issuance of this Order to minimize any expense related to applying the new rates and for administrative efficiency prefers an effective date that corresponds to the beginning of a month rather than on the specific date that this Order is issued. Accordingly, the Commission will direct that the remaining lives certified in this Order will be effective March 1, 2005.

C. New Account Regarding Trailers

1. Great Plains' Petition

As part of its initial filing in this matter, Great Plains provided tables showing a new general plant account for trailers (Account 329.10) with a December 31, 2003 balance, a proposed 20 year average service life and amortization period, and a proposed zero percentage salvage value.

2. The Department

The Department recommended that the Commission approve the proposed 20 year average service life, amortization period, and zero percent salvage value.

3. The Commission's Analysis and Action

The Commission finds that the new account and the Company's proposed treatment of it are reasonable. The Commission will approve the new account as presented.

D. Great Plains' Failure to Implement the Commission's January 24, 2003 Order Before January 1, 2004

1. The Department

The Department stated that Great Plains failed to use currently certified service lives, salvage values, and resulting depreciation rates to calculate depreciation accruals for 2002 and 2003. The Department stated that it learned from the Company that it had waited until 2004 to implement the depreciation rates and methods certified by the Commission effective January 1, 2002.[1]

The Department recommended that the Commission require the Company to adjust 2004 depreciation expense and reserve balances to account for the difference between the 2002 and 2003 depreciation accruals actually recorded by Great Plains and the amount of 2002 and 2003 depreciation accruals that should have been recorded based on the depreciation rates and methods certified in Docket No. G-004/D-02-1438.

---

[1] See *In the Matter of Great Plains-Natural Gas Company's Certification of Depreciation Rates for 2002*, Docket No. G-004/D-02-1438, ORDER CERTIFYING DEPRECIATION RATES AND METHODS (January 24, 2003) and page 4.

2. Great Plains' Response

Great Plains acknowledged that it should have immediately implemented the depreciation rates authorized in the January 24, 2003 Order in Docket No. G-004/D-002-1438 but objected to the Department's recommendation that the Company be required to retroactively implement those rates because, the Company argued, the cost of making the adjustment outweighed the benefit.

Regarding the cost of implementing the Department's recommendation, the Company stated that a complete recalculation and verification of the adjustment of each FERC[2] account for each of the 24 months would involve a significant overhaul its accounting system, consuming approximately 400-500 hours of Great Plains' staff and consultant time at a cost of approximately $35,000. As to the potential benefit of making the recommended adjustments, the Company estimated that the annual adjustment resulting from the Department's proposal would be between $25,00 and $30,000. Thus, the Company concluded, the cost of making the adjustment would be greater than the annual adjustment itself.

3. The Commission's Analysis and Action

It is appropriate that the Commission require reasonable corrective action to address the Company's failure to implement the depreciation rates until two years after the Commission ordered them in to effect on January 1, 2003. The question is whether the depreciation reserves in its property accounting system can be corrected without disproportionately costly changes to the computer software. In consultation with the Company, the Commission believes it has developed such a corrective action, one that is tailored to the gravity of the Company's act (or failure to act) and is at the same time cost effective.

The property accounting system calculates depreciation on a monthly basis for each asset. Relatively minor adjustments (increases) to each account can, by the end of the year, bring the Company's depreciation reserves more or less in line with what they would be if the Company had used the approved rates and lives starting when they should have, January 1, 2002. This can be readily done because in its current rate case the Company has already determined for each account a reasonable approximation of the required adjustments for 2002 and 2003.[3] Appropriate year-end depreciation reserves, therefore, can be achieved simply by directing the Company to increase the currently approved depreciation rates to incorporate the amount of the adjustment used in its current rate case.

---

[2] FERC is an abbreviation for the Federal Energy Regulatory Commission.

[3] See Docket No. G-004/GR-04-1487.

E. Vintage Year Method of Accounting

1. The Department's Comments

The Department recalled that in Great Plains' previous depreciation docket, the Company had proposed and the Commission had approved the Company's use of vintage-year accounting for purpose of general plant consistent with FERC's Accounting Release No. 15 on vintage-year accounting.[4] The Department also noted that notwithstanding this, the Company continued to use unit-of-property accounting for accounts 391-398 during 2002 and 2003 instead of the approved vintage year accounting, including unit-of-property retirements in its calculation of proposed accruals.

The Department recommended, therefore, that the Commission order Great Plains to also adjust its plant and reserve accounts in 2004 to reflect the approved vintage year method of accounting for accounts 391 through 398 during 2002 and 2003, i.e. to record retirements of plant from accounts 391-398 as vintage year retirements.

2. Great Plains' Comments

Great Plains agreed to adjust plant and reserves to reflect the appropriate retirements for the approved vintage year method of accounting for years 2002 and 2003 in the accounting year of 2004 and adjust the accrual prospectively reflecting the current approved rates and methods. The Company noted that this one-time adjustment to retirements does not require the modifications to Great Plains' accounting system and can be completed without the changes that would be required to recalculate depreciation expenses for 2003 and 2004 as recommended by the Department in the previous section.

3. Commission Analysis and Action

The Department's recommendation, which the Company has accepted, is reasonable and will be adopted.

ORDER

1. The Commission certifies Great Plains' proposed remaining lives (RL) as follows:

---

[4] Supra at page 3.

Acct. No.	Class of Utility Plan	Remaining Life (Years)
Production Plant		
305.00	Structures	14.8
311.00	Liquid Petro. Gas Equip.	7.7
320.00	Other Plant	4.4
Transmission Plant		
365.20	Right of Way	27.4
367.00	Mains	21.0
367.40-.42	Railroad, River & Highway Crossings	27.1
367.45	Anodes and Cathodic Protection	14.2
367.50	Trans. Mains-Valves	9.3
367.60-.61	Farm & Side Taps	11.0
369.00	Meas. & Req. Station Equip.	19.9
Distribution Plant		
374.20	Rights of Way	32.3
375.00	Dist. Meas. & Reg. Station Structures	21.2
376.00	Steel Mains	39.0
376.10	Plastic Mains	44.8
376.11	Plastic Mains-PVC	8.0
376.20	Valves	30.4
376.28-.50	Railroad, River & Highway Crossings	20.5
376.55	Anodes and Cathodic Protection	12.6
376.56	Pipeline Markers	2.6
378.00	Meas. & Req. Station Equipment	14.5
379.00	M & R Station Equip.-City Gate	12.0
380.00	Steel Services	26.5
380.10	Plastic Services	35.8
380.11	Plastic Services-PVC	7.6
380.55	Anodes and Cathodic Protection	5.5
381.00	Meters	13.4
382.00	Meter Installations	32.2
383.00	Regulators	23.4
385.00	Industrial M. & R. Equipment	21.8
387.00	Other Equipment	13.3
387.10	Cathodic Protection Equipment	21.6
General Plant		
390.00	General Structures & Improvements	19.9
390.20	Leasehold Improvements	2.6

2. The remaining lives certified in the preceding Order Paragraph are effective as of March 1, 2005.

3. Great Plains' proposal for Account 392.10 is certified: 20 year average service life and zero percent salvage value.

4. Great Plains shall adjust 2005 depreciation expense and reserves to reflect the necessary adjustment of the 2002 and 2003 depreciation accruals related to the depreciation rates certified by the Commission in Docket No. G-004/D-02-1438 using the following methodology:

   > The Company shall adjust the approved depreciation rates for each account by adding the amount of required adjustment for 2002 and 2003 that it used in its current rate case (Docket No. G-004/GR-04-1487). The resulting (revised) rates would, therefore, be the sum of the current depreciation expense and the required adjustment. Thus by the end of the year, the depreciation reserves will be approximately the same as if the Company had used the approved rates and lives starting January 1, 2003.

5. Great Plains shall adjust its plant and reserve accounts in 2004 to reflect the approved vintage year method of accounting for accounts 391 through 398 during 2002 and 2003 i.e., record retirements of plant accounts 391 through 398 as vintage year (as opposed to unit-of-property) retirements.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 297-4596 (voice), or 1-800-627-3529 (MN relay service).