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December 8, 2017

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

**Re: Informational Update to the Gas Utility Infrastructure Cost Adjustment  
Docket No. G004/M-17- \_\_**

Dear Mr. Wolf:

Great Plains Natural Gas Co. (Great Plains), a Division of MDU Resources Group, Inc., herewith electronically submits this informational filing to provide an update regarding the true-up of the 2017 revenue requirement authorized by the Commission to be recovered through the Company's Gas Utility Infrastructure Cost Adjustment (GUIC), which was approved by the Commission in its October 6, 2017 Order issued in Docket No. G004/M-16-1066. In accordance with the Order, the Company submitted its Compliance Filing on October 10, 2017 and the GUIC rate adjustment factors were implemented effective with service rendered on and after November 1, 2017.

### **Background**

On December 21, 2016, Great Plains proposed a GUIC rider to recover costs incurred to comply with federal regulations that set standards governing the safety, reliability, and integrity of natural gas distribution assets and infrastructure (Initial Filing). Great Plains' Distribution Integrity Management Program (DIMP) identified two capital projects for replacing polyvinyl chloride (PVC) pipe mains and services throughout the Company's service territory as required by Federal regulations (Subpart P of 49 C.F.R. Part 192).

In its Initial Filing, Great Plains proposed to recover the 2016 cost of replacing PVC mains and services in Renville and Breckenridge to complete the Renville project and to continue with the replacement project in Breckenridge. The replacement projects in those communities started in 2015. Great Plains also proposed to recover estimated 2017 capital expenditures associated with replacing mains and services in the

communities of Clarkfield, Pelican Rapids, and Echo and to complete the project in the community of Breckenridge. Great Plains proposed a May 1, 2017 effective date for its GUIC adjustment.

As part of its GUIC adjustment, Great Plains proposed to “true-up” the estimated project costs, by comparing the actual costs and revenue collected through the GUIC adjustment for the twelve months ending October 31 in a December 1 filing. However, because Great Plains implemented the GUIC adjustment factors associated with the 2016 and 2017 capital replacement projects on November 1, 2017, there is no true-up of costs versus revenue because there were no revenues for the period ending October 31, 2017. To address this anomaly, Great Plains is nevertheless submitting this Informational Filing to provide an update to the Commission on expenditures during 2017 and to inform the Commission of its plans going forward with respect to changes to the GUIC adjustment for planned 2018 projects.

**GUIC Informational True-up**

The 2016 GUIC projects were included in the Company’s December 21, 2016 Initial Filing in Docket No. G004/M-16-1066 with actual costs through November and estimated December expenditures. The actual expenditures in December 2016 were less than estimated in the Initial Filing, primarily the result of a refund of an overpayment to a contractor, which was received in December 2016. Below is a summary of the costs as submitted in the Initial Filing compared to actual costs for main replacement and service line replacements.

	2016 Actual	2016 Estimated As Filed	Variance	% Capital Variance
Replace PVC mains	956,526	1,038,400	(81,874)	-7.88%
Replace PVC services	883,018	1,164,763	(281,745)	-24.19%
Total capital expenditure	1,839,544	2,203,163	(363,619)	-16.50%

Due to the timing of the submission of the Initial Filing in December 2016, the GUIC project costs for 2017 associated with replacing mains and services in Clarkfield, Breckenridge, Pelican Rapids, and Echo were based on estimates. A comparison of 2017 costs reflecting actual expenditures through October 31, 2017 (with estimates for November and December 2017) to the 2017 estimates included in the Initial Filing is shown below for main replacement and service line replacements.

	2017 Actual	2017 Estimated As Filed	Variance	% Capital Variance
Replace PVC mains	1,805,904	975,652	830,252	85.10%
Replace PVC services	1,178,460	853,574	324,886	38.06%
Total capital expenditure	2,984,364	1,829,226	1,155,138	63.15%

As is apparent, Great Plains underestimated the costs associated with its 2017 GUIC projects. The significant variance in costs is due to the use of a preliminary estimate based on PVC footages identified on Great Plains GIS. The estimate did not account for the total feet of mains required to replace the PVC system. The estimate also excluded the cost of the following items that become necessary components of the 2017 projects:

- Mandatory sewer lateral camera investigation charges;
- Loop lines installed in order to provide alternate feeds that were determined necessary to ensure the reliability of the system;
- Main installation required to be parallel to the street rather than through the alley way causing increased restoration costs and additional pipe footage;
- Replacement of obsolete pipe sizes upon discovery through the replacement project; and
- Replacement of existing system components where adequate DOT information was not available in the system and needed to be removed and replaced.

In all, approximately 80,066 feet of main was installed as compared to the 55,000 feet of PVC pipe that was estimated to be replaced in the Initial Filing throughout the four communities and miscellaneous projects that arise because of a street project or some other city project that required Great Plains' facilities to be moved.

While the 2017 project costs were underestimated, the estimated timing of the expenditures included in the 2017 estimate in the GUIC Initial Filing was also inconsistent with the actual timing of the close outs to plant in service. Therefore, the revenue requirement associated with the actual expenditures and actual close outs to plant in service is less than the projected revenue requirement submitted in the December 2016 GUIC. As shown on Exhibit A the updated revenue requirement for the twelve months ending December 2017 is \$408,852 as compared to the revenue requirement of \$456,286 included in the Initial Filing.

As noted above, Great Plains did not begin collecting the GUIC adjustment factors authorized in Docket No. G004/M-16-1066 until November 1, 2017, therefore there were no revenues collected during the period ending October 31, 2017.

### **Projected 2018 Cost Estimate**

In light of Great Plains' experience in under-estimating 2017 costs, Great Plains has reevaluated the timing of the submission of its GUIC cost estimates for 2018. Great Plains has determined that detailed design for the planned 2018 projects, which include continued replacement work in Pelican Rapids and Clarkfield, are not currently available in the level of detail necessary to accurately project 2018 expenditures. Therefore, Great Plains has decided to submit its estimated costs for 2018 upon completion of the design work expected to be available for filing by April 15, 2018. This projection will include an annual forecasted amount of capital expenditures for 2018. Great Plains

believes that changing the timing of the submission of the 2018 Report will result in more reliable cost estimates and will minimize the likelihood that there is a significant variance between estimated and actual project costs for 2018.

### **GUIC Rate Adjustment**

Because the GUIC adjustment became effective with service rendered on and after November 1, 2017, Great Plains is not requesting a change in the GUIC Rate Adjustment as part of this Informational Filing. Great Plains does not believe a change to the adjustment is appropriate at this time because (1) Great Plains only started collecting the applicable charge effective November 1, 2017; (2) Great Plains does not yet have the level of detail necessary to provide a reliable estimate for 2018 costs; and (3) any change at this time could lead to customer confusion as Great Plains only recently sent out the customer notice required by the Commission's October 6 Order explaining the implementation of the GUIC adjustment.

Upon filing the 2018 Report and estimated costs for 2018 GUIC projects, Great Plains will update the true-up calculation to reflect actual revenues collected through that time and propose a new GUIC Rate Adjustment to be effective 150 days after the filing in April 2018. Great Plains may also propose revisions to its Tariff to reflect true-up dates going forward that better align with GUIC implementation going forward. Finally, Great Plains understands that consistent with the Commission's October 6, 2017 Order approving the GUIC, as part of its true-up filing Great Plains will be required to demonstrate that the 2016 and 2017 GUIC costs were prudently incurred.

If you have any questions regarding this filing, please contact me at (701) 222-7856 or Brian Meloy, at (612) 335-1451.

Sincerely,

*/s/ Tamie A. Aberle*

Tamie Aberle  
Director of Regulatory Affairs

cc: Brian M. Meloy

**GREAT PLAINS NATURAL GAS CO.  
GUIC REVENUE REQUIREMENT  
UPDATE 2017**

	<u>Total</u>	<u>Mains</u>	<u>Services</u>
Depreciation Expense	\$76,010	\$36,370	\$39,640
Ad Valorem Taxes	85,866	49,171	36,695
Return	168,577	91,086	77,491
Income Taxes	(90,742)	(48,235)	(42,507)
Gross up for Taxes	169,141	90,594	78,547
Total	<u>\$408,852</u>	<u>\$218,986</u>	<u>\$189,866</u>

**GREAT PLAINS NATURAL GAS CO.  
GUIC PLANT ADDITIONS - MAINS  
2017 REVENUE REQUIREMENT**

	Actual Through October										Projected		
	January	February	March	April	May	June	July	August	September	October	November	December	
Plant in Service	956,526	956,526	956,526	956,526	956,526	956,526	956,526	1,039,590	1,668,284	1,770,196	2,274,461	2,762,430	
Accumulated Reserve	4,805	7,220	9,635	12,050	14,465	16,880	19,295	21,710	24,335	28,547	33,017	38,760	
ADIT	17,313	20,775	24,237	27,699	31,161	34,623	38,085	41,547	45,009	48,471	51,933	55,388	
Rate Base	934,408	928,531	922,654	916,777	910,900	905,023	899,146	976,333	1,598,940	1,693,178	2,189,511	2,668,282	
	<u>Total</u>												
Return @ 7.032% 1/	91,086	5,476	5,441	5,407	5,372	5,338	5,303	5,269	5,721	9,370	9,922	12,831	15,636
Expenses													
Depreciation	36,370	2,415	2,415	2,415	2,415	2,415	2,415	2,415	2,415	2,625	4,212	4,470	5,743
Ad Valorem Taxes	49,171	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,542	2,475	2,626	3,374	29,221
Total Expenses	85,541	3,834	3,834	3,834	3,834	3,834	3,834	3,834	3,957	5,100	6,838	7,844	34,964
Income before taxes	(85,541)	(3,834)	(3,834)	(3,834)	(3,834)	(3,834)	(3,834)	(3,834)	(3,957)	(5,100)	(6,838)	(7,844)	(34,964)
Interest expense	31,049	1,866	1,855	1,843	1,831	1,820	1,808	1,796	1,950	3,194	3,382	4,374	5,330
	(116,590)	(5,700)	(5,689)	(5,677)	(5,665)	(5,654)	(5,642)	(5,630)	(5,907)	(8,294)	(10,220)	(12,218)	(40,294)
Income Taxes	48,235	2,358	2,354	2,349	2,344	2,339	2,334	2,329	2,444	3,431	4,228	5,055	16,670
Operating Income	(37,306)	(1,476)	(1,480)	(1,485)	(1,490)	(1,495)	(1,500)	(1,505)	(1,513)	(1,669)	(2,610)	(2,789)	(18,294)
Revenue Requirement	<u>\$218,986</u>	<u>\$11,857</u>	<u>\$11,805</u>	<u>\$11,755</u>	<u>\$11,704</u>	<u>\$11,654</u>	<u>\$11,603</u>	<u>\$11,554</u>	<u>\$12,338</u>	<u>\$18,828</u>	<u>\$21,375</u>	<u>\$26,642</u>	<u>\$57,871</u>

1/ Authorized in Docket No. G004/GR-15-879.

**GREAT PLAINS NATURAL GAS CO.  
GUIC PLANT ADDITIONS - SERVICES  
2017 REVENUE REQUIREMENT**

	Actual Through October										Projected		
	January	February	March	April	May	June	July	August	September	October	November	December	
Plant in Service	883,018	883,018	883,018	883,018	883,018	883,018	883,018	927,934	1,362,206	1,447,458	1,848,529	2,061,478	
Accumulated Reserve	7,021	9,788	12,555	15,322	18,089	20,856	23,623	26,390	29,298	33,566	38,102	43,894	
ADIT	14,294	16,649	19,004	21,359	23,714	26,069	28,424	30,779	33,134	35,489	37,844	40,194	
Rate Base	861,703	856,581	851,459	846,337	841,215	836,093	830,971	870,765	1,299,774	1,378,403	1,772,583	1,977,390	
	<u>Total</u>												
Return @ 7.032% 1/	77,491	5,050	5,020	4,990	4,960	4,930	4,900	4,869	5,103	7,617	8,077	10,387	11,588
Expenses													
Depreciation	39,640	2,767	2,767	2,767	2,767	2,767	2,767	2,767	2,767	2,908	4,268	4,536	5,792
Ad Valorem Taxes	36,695	1,310	1,310	1,310	1,310	1,310	1,310	1,310	1,377	2,021	2,147	2,742	19,238
Total Expenses	76,335	4,077	4,077	4,077	4,077	4,077	4,077	4,077	4,144	4,929	6,415	7,278	25,030
Income before taxes	(76,335)	(4,077)	(4,077)	(4,077)	(4,077)	(4,077)	(4,077)	(4,077)	(4,144)	(4,929)	(6,415)	(7,278)	(25,030)
Interest expense	26,413	1,721	1,711	1,701	1,691	1,680	1,670	1,660	1,739	2,596	2,753	3,541	3,950
	(102,748)	(5,798)	(5,788)	(5,778)	(5,768)	(5,757)	(5,747)	(5,737)	(5,883)	(7,525)	(9,168)	(10,819)	(28,980)
Income Taxes	42,507	2,399	2,394	2,390	2,386	2,382	2,378	2,373	2,434	3,113	3,793	4,476	11,989
Operating Income	(33,822)	(1,678)	(1,683)	(1,687)	(1,691)	(1,695)	(1,699)	(1,704)	(1,710)	(1,816)	(2,622)	(2,802)	(13,041)
Revenue Requirement	<u>\$189,866</u>	<u>\$11,475</u>	<u>\$11,433</u>	<u>\$11,388</u>	<u>\$11,344</u>	<u>\$11,300</u>	<u>\$11,255</u>	<u>\$11,211</u>	<u>\$11,620</u>	<u>\$16,089</u>	<u>\$18,248</u>	<u>\$22,495</u>	<u>\$42,008</u>

1/ Authorized in Docket No. G004/GR-15-879.

**GREAT PLAINS NATURAL GAS CO.  
GUIC PLANT ADDITIONS - MAINS  
2016 ADDITIONS**

	Total	January	February	March	April	May	June	July	August	September	October	November	December
<b>Replace PVC Main</b>													
Expenditures 1/	\$956,526	\$0	\$4,061	\$112	\$13,489	\$48,987	\$194,341	\$243,851	\$162,179	\$136,844	\$6,844	\$151,832	(\$6,014)
Close to Plant (cumulative)	956,526	0	4,061	4,173	4,173	4,173	4,173	4,173	4,173	306,559	307,251	317,039	956,526
Depreciation	2,390	0	0	10	10	10	10	10	10	10	764	766	790
Accumulated Reserve	2,390	0	0	10	20	30	40	50	60	70	834	1,600	2,390
ADIT	13,851	1,154	2,308	3,462	4,616	5,770	6,924	8,078	9,232	10,386	11,540	12,694	13,851
Net Plant	\$940,285	(\$1,154)	\$1,753	\$701	(\$463)	(\$1,627)	(\$2,791)	(\$3,955)	(\$5,119)	\$296,103	\$294,877	\$302,745	\$940,285
Ad Valorem Taxes	\$17,026	0	6	6	6	6	6	6	6	455	456	470	15,603

1/ December 2016 expenditures and closure to plant amounts revised to actual.

**GREAT PLAINS NATURAL GAS CO.  
GUIC PLANT ADDITIONS - MAINS  
2016 ADDITIONS - YEAR 2**

	Total	January	February	March	April	May	June	July	August	September	October	November	December
<b>Replace PVC Main</b>													
Expenditures	\$0												
Close to Plant (cumulative)	956,526	956,526	956,526	956,526	956,526	956,526	956,526	956,526	956,526	956,526	956,526	956,526	956,526
Depreciation	28,980	2,415	2,415	2,415	2,415	2,415	2,415	2,415	2,415	2,415	2,415	2,415	2,415
Accumulated Reserve	31,370	4,805	7,220	9,635	12,050	14,465	16,880	19,295	21,710	24,125	26,540	28,955	31,370
ADIT	30,429	15,233	16,615	17,997	19,379	20,761	22,143	23,525	24,907	26,289	27,671	29,053	30,429
Net Plant	\$894,727	\$936,488	\$932,691	\$928,894	\$925,097	\$921,300	\$917,503	\$913,706	\$909,909	\$906,112	\$902,315	\$898,518	\$894,727
Ad Valorem Taxes	\$17,026	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,419	1,419



**GREAT PLAINS NATURAL GAS CO.  
GUIC PLANT ADDITIONS - SERVICES  
2016 ADDITIONS**

	Total	January	February	March	April	May	June	July	August	September	October	November	December
<b>Replace PVC Services Expenditures 1/</b>	\$883,018	\$0	\$487	\$112	\$3,379	\$19,321	\$207,468	\$162,822	\$231,746	\$252,096	\$45,223	\$181,017	(\$220,653)
Close to Plant (cumulative)	883,018	0	487	599	599	599	599	608	608	398,912	420,790	421,045	883,018
Depreciation	4,254	0	0	2	2	2	2	2	2	2	1,363	1,438	1,439
Accumulated Reserve	4,254	0	0	2	4	6	8	10	12	14	1,377	2,815	4,254
ADIT	11,939	995	1,990	2,985	3,980	4,975	5,970	6,965	7,960	8,955	9,950	10,945	11,939
Net Plant	\$866,825	(\$995)	(\$1,503)	(\$2,388)	(\$3,385)	(\$4,382)	(\$5,379)	(\$6,367)	(\$7,364)	\$389,943	\$409,463	\$407,285	\$866,825
Ad Valorem Taxes	\$15,718	0	1	1	1	1	1	1	1	592	624	625	13,870

1/ December 2016 expenditures and close to plant amounts revised to actual.

**GREAT PLAINS NATURAL GAS CO.  
GUIC PLANT ADDITIONS - SERVICES  
2016 ADDITIONS - YEAR 2**

	Total	January	February	March	April	May	June	July	August	September	October	November	December
<b>Replace PVC Services Expenditures</b>	\$0												
Close to Plant (cumulative)	883,018	883,018	883,018	883,018	883,018	883,018	883,018	883,018	883,018	883,018	883,018	883,018	883,018
Depreciation	33,204	2,767	2,767	2,767	2,767	2,767	2,767	2,767	2,767	2,767	2,767	2,767	2,767
Accumulated Reserve	37,458	7,021	9,788	12,555	15,322	18,089	20,856	23,623	26,390	29,157	31,924	34,691	37,458
ADIT	24,574	12,992	14,045	15,098	16,151	17,204	18,257	19,310	20,363	21,416	22,469	23,522	24,574
Net Plant	\$820,986	\$863,005	\$859,185	\$855,365	\$851,545	\$847,725	\$843,905	\$840,085	\$836,265	\$832,445	\$828,625	\$824,805	\$820,986
Ad Valorem Taxes	\$15,718	1,310	1,310	1,310	1,310	1,310	1,310	1,310	1,310	1,310	1,310	1,310	1,308

**GREAT PLAINS NATURAL GAS CO.  
GUIC PLANT ADDITIONS - MAINS  
2017 ADDITIONS**

	Actual Through October										Projected		
	Total	January	February	March	April	May	June	July	August	September	October	November	December
<b>Replace PVC Main</b>													
Expenditures	\$1,805,904	\$0	\$0	\$1,058	\$8,915	\$249,194	\$379,516	\$294,405	\$310,776	\$57,775	\$384,381	\$119,884	\$0
Close to Plant (cumulative)	1,805,904	0	0	0	0	0	0	0	83,064	711,758	813,670	1,317,935	1,805,904
Depreciation	7,390	0	0	0	0	0	0	0	0	210	1,797	2,055	3,328
Accumulated Reserve	7,390	0	0	0	0	0	0	0	0	210	2,007	4,062	7,390
ADIT	\$24,959	2,080	4,160	6,240	8,320	10,400	12,480	14,560	16,640	18,720	20,800	22,880	24,959
Net Plant	\$1,773,555	(2,080)	(4,160)	(6,240)	(8,320)	(10,400)	(12,480)	(14,560)	66,424	692,828	790,863	1,290,993	1,773,555
Ad Valorem Taxes	\$32,145	0	0	0	0	0	0	0	123	1,056	1,207	1,955	27,804

**GREAT PLAINS NATURAL GAS CO.  
GUIC PLANT ADDITIONS - SERVICES  
2017 ADDITIONS**

	Actual Through October										Projected		
	Total	January	February	March	April	May	June	July	August	September	October	November	December
<b>Replace PVC Services</b>													
Expenditures	\$1,178,460	\$0	\$0	\$0	\$425	\$49,578	\$261,974	\$169,750	\$234,467	\$61,195	\$382,569	\$18,502	\$0
Close to Plant (cumulative)	1,178,460	0	0	0	0	0	0	0	44,916	479,188	564,440	965,511	1,178,460
Depreciation	6,436	0	0	0	0	0	0	0	0	141	1,501	1,769	3,025
Accumulated Reserve	6,436	0	0	0	0	0	0	0	0	141	1,642	3,411	6,436
ADIT	\$15,620	1,302	2,604	3,906	5,208	6,510	7,812	9,114	10,416	11,718	13,020	14,322	15,620
Net Plant	\$1,156,404	(1,302)	(2,604)	(3,906)	(5,208)	(6,510)	(7,812)	(9,114)	34,500	467,329	549,778	947,778	1,156,404
Ad Valorem Taxes	\$20,977	0	0	0	0	0	0	0	67	711	837	1,432	17,930