MINNESOTA DEPARTMENT OF COMMERCE

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February 3, 2014

Burl W. Haar
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. E111/M-14-46

Dear Dr. Haar:

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

Dakota Electric Association's 2014 Annual Resource and Tax Adjustment.

The petition was filed on January 14, 2014 by:

Kathryn J. Thacher
Director of Financial Planning, Analysis and Regulatory
Dakota Electric Association
4300 220th Street West
Farmington, Minnesota 55024

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

Sincerely,

/s/ MICHAEL ZAJICEK
Rates Analyst

MZ/lt

Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. E111/M-14-46

I. BACKGROUND

On January 14, 2014, Dakota Electric Association (DEA or the Cooperative) filed its proposed 2014 Annual Resource and Tax Adjustment (RTA Petition) with the Minnesota Public Utilities Commission (Commission). Dakota Electric's RTA factor is adjusted every January and then reviewed after six months and adjusted again as necessary.

The RTA Petition shows that DEA calculated it proposed RTA on a per-kWh basis for the projected calendar year ending December 31, 2013. The RTA has the following three components:

- A power cost adjustment;
- A demand-side management (DSM) and conservation adjustment; and
- A property and real estate tax adjustment.

The net credit or charge per kWh of all these adjustments appears on customers' bills as a single line titled "Resource and Tax Adjustment."

For residential customers, DEA proposed a total net 2014 RTA of $0.0132 per kWh, broken down into a power cost adjustment of $0.0127 per kWh, a DSM and conservation adjustment of $0.0001 kWh, and a property and real estate tax adjustment of $0.0004 per kWh. DEA's 2013 net RTA was $0.0117 per kWh for residential customers, so there is a proposed increase of $0.0015 per kWh. The increase is substantially due to an increase in power costs. DEA purchases nearly all its power from Great River Energy (GRE).

Table 1, below, summarizes DEA's proposed RTA by rate class for the calendar year January, 2014 through December, 2014.

Table 1: Proposed RTA by Rate Class

Rate Class	Power Cost Adjustment	DSM & Conservation Adjustment	Property & Real Estate Tax Adjustment	Total Resource & Tax Adjustment
Residential	$0.0127	$0.0001	$0.0004	$0.0132
Residential Demand Control	$0.0127	$0.0001	$0.0004	$0.0132
Irrigation – Firm	$0.0127	$0.0001	$0.0002	$0.0130
Irrigation – Interruptible	$0.0058	$0.0001	$0.0002	$0.0061
Small General Service	$0.0127	$0.0001	$0.0003	$0.0131
Street Lights	$0.0127	$0.0001	$0.0013	$0.0141
Security Lights	$0.0127	$0.0001	$0.0013	$0.0141
General Service	$0.0127	$0.0001	$0.0002	$0.0130
Geothermal Heat Pump	$0.0247	$0.0001	$0.0002	$0.0250
Controlled Energy Storage	$0.0019	$0.0001	$0.0004	$0.0024
Controlled Interruptible	$0.0045	$0.0001	$0.0004	$0.0050
Time of Day – Residential	$0.0127	$0.0001	$0.0004	$0.0132
Time of Day – General Service	$0.0127	$0.0001	$0.0002	$0.0130
Interruptible Option – Full	$0.0058	$0.0001	$0.0001	$0.0060
Interruptible Option – Partial	$0.0058	$0.0001	$0.0001	$0.0060

Minn. Stat. §216B.241, subd. 2 (b) allows a public utility to petition the Commission for approval to include an automatic adjustment for real and personal property taxes, fees and permits on their monthly bills. The Commission's April 22, 1996 Order in Docket No. E111/M-95-1395 gave DEA approval to include an adjustment for real and personal property taxes. The Department notes that the Commission's June 12, 2012 Order in Docket No. E111/M-12-144 indicated that if DEA were to reduce its Conservation Improvement Program (CIP) spending below 1.75 percent of gross revenues in a given year, the Cooperative would not be permitted to include a property tax adjustment in the RTA in the following year.

I. DEPARTMENT ANALYSIS

As noted above, there are three factors which comprise DEA's RTA: the purchased power cost adjustment, the conservation cost adjustment, and the property tax adjustment. The purpose of the RTA is to allow DEA to adjust rates for variations from the predicted costs of each of these adjustments as compared to the rates determined in DEA's most recent rate case. By design, the RTA is forward-looking, based on estimated costs for the upcoming year, and designed to ensure that there is no double recovery of costs in the RTA and in the base rates. In addition, the midyear adjustment affords timelier matching of costs DEA incurs to serve customers with revenues from customers in these areas.

A. POWER COST ADJUSTMENT

The purchased power cost adjustment is defined as the difference between the projected cost of power and DEA's base cost of power rate approved in its most recent rate case. Six months after each January 1, DEA compares the projected power cost against actual costs to determine whether a change in the power cost adjustment is necessary to zero out any over- or under-recovery accumulated since January 1. If an adjustment is necessary, the factor is changed beginning with power consumed in July. Since the aggregate power cost adjustment credit or charge is based on the projected level of sales, the actual credit or charge will generally not equal the projection. To account for the difference, DEA performs a true-up calculation at the end of each fiscal year, and adjusts any net over- or under- recovery on the subsequent year's power cost recovery.

The Department reviewed DEA's calculation of the true-up and concludes that the calculation is accurate. Therefore, the Department concludes that DEA's proposal to recover the difference between its base cost of energy and wholesale power costs through the power cost adjustment is appropriate.

B. DEMAND-SIDE MANAGEMENT AND CONSERVATION ADJUSTMENT

DEA's approved DSM and conservation spending additions from the calendar year are recovered from January 1 through December 31 of the next year. The recovery factor is computed using the same kWh sales projections used for the purchased power cost adjustment factor, as noted above.

DEA proposed a DSM and conservation adjustment of $0.0001 to recover additions to the tracker and under recovery of $29,074 from 2013, as shown on Schedule A3 of DEA's filing. The Department reviewed DEA's calculation of the DSM and conservation adjustment and concludes that the calculation is accurate. Therefore, the Department concludes that DEA's proposed DSM and conservation adjustment is appropriate.

C. PERSONAL PROPERTY TAX ADJUSTMENT

Minn. Stat. §216B.241, subd. 2(b) states, in part:

> A public utility is eligible to file for adjustment for real and personal property taxes, fees, and permits under this subdivision only if, in the year previous to the year in which it files for adjustment, it has spent or invested at least 1.75 percent of its gross revenues from provision of electric service and 0.6 percent of its gross revenue from provisions of gas service for that year for energy conservation improvements in this section.

In addition, Minn. Stat. §216B.241, subd. 1b(f) allows that:

> A generation and transmission cooperative electric association that provides energy services to cooperative electric associations that provide electric service at retail to consumers may invest in energy conservation improvements on behalf of the associations it serves and may fulfill the conservation, spending, reporting, and energy savings goals on an aggregate basis.

In DEA's case, GRE, as the generation and transmission provider for DEA, may contribute to DEA's CIP spending. Consequently, the Department calculated DEA's compliance with the 1.75 percent spending requirement set forth in Minn. Stat. §216B.241, subd. 2(b) both with and without GRE's contributions to CIP spending in order to determine whether the Cooperative remains eligible to file for a property tax adjustment.

Table 2 summarizes the Department's analysis of DEA's CIP spending to ensure that DEA still meets the 1.75 percent spending requirement.

Table 2: DEA's Minimum Spending Requirement

2013 Gross Operation Revenue	$193,896,155[1]
DEA's 2013 CIP spending (excluding generator rebate program)[2]	$2,363,079
CIP as a percentage of Gross Operating Revenue	1.22%
DEA's 2012 CIP Spending with GRE's Contributions (excluding generator rebate)	$3,817,738
CIP with GRE as a percentage of Gross Operating Revenue	1.97%

Without GRE's contributions and without the generator rebate, DEA spent only 1.22 percent of its gross operating revenues on CIP, meaning that DEA did not meet the spending threshold as a stand -alone entity. However, with GRE's contributions the percentage rose to 1.97 percent, thus allowing DEA to meet the spending threshold when GRE's contributions are included. The Department concludes that, since DEA is spending a significant amount on CIP without GRE's contributions, and since the total amount spent including GRE's contributions far exceeds the 1.75 percent threshold, DEA is eligible to file a property tax adjustment.

DEA proposed a charge of $0.0004 per kWh for property taxes, which reflects the expectation that property taxes will be slightly higher than the amount built into base rates. The Department reviewed DEA's calculations and found them to be accurate and that concludes that the rate is appropriate.

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[1] See DEA's response to Information Request 1 (Attachment 1)

[2] In the Commission's March 24, 1995 Order in Docket No. E111/M-95-55, the Commission found that the generator rebate program is not an energy conservation improvement under Minnesota Statutes, and disallowed costs of this program from calculations to determine DEA's net conservation spending; however, in the same Order, DEA was permitted to continue recovery of the costs of the generator rebate program though its approved conservation tracker account.

D. COMPLIANCE WITH COMMISSION ORDERS

In its April 22, 1996 Order in Docket No. E111/M-95-1395 approving the RTA, the Commission ordered DEA to provide the following compliance information as part of its filing:

- The annual conservation tracker account report detailing DEA's eligibility to recover incremental taxes under Minn. Stat. §216B.241, subd. 2(b).

- The finalized current year's total real and personal property tax bill and its proposed filing to true-up its annual tax adjustment rider.

- Information to verify that the incremental real and personal property tax recovery is limited to known and actual gross revenues and conservation expenditures.

The Department concludes that DEA submitted the information set forth in the Commission's April 22, 1996 Order.

The Department also reviewed DEA's petition to ensure that it preserved the existing rate design. In Docket No. E111/M-95-1395 concerning the RTA, DEA and the Department agreed that the increased tax expense should be allocated to the customer classes based on the class-cost-of-service method in DEA's most recent rate case.

DEA's most recent rate case was approved by the Commission in its May 24, 2010 Order in Docket No. E111/GR-09-175. As part of its filing, DEA submitted a schedule detailing the allocation of taxes to the various classes, along with the net recoverable balance after any over- or under-recovery. A review of the schedule indicates that DEA has allocated its taxes among the classes in compliance with the Commission's April 22, 1996 Order.

In summary, the Department concludes that DEA has complied with the Commission's Order, and recommends that the Commission approve DEA's 2014 Annual Resource and Tax Adjustment.

II. DEPARTMENT RECOMMENDATIONS

The Department recommends that the Commission approve DEA's 2014 Annual Resource and Tax Adjustment petition.

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Dakota Electric Association

Response to

Minnesota Department of Commerce
Division of Energy Resources
Utility Information Request

Docket Number:	***E-111/M-14-46***
Request Number:	***1***
Requested By:	***Michael Zajicek***
Date of Request:	***January 21, 2014***
Response Prepared By:	***Kathy Thacher*** ***Dakota Electric Association*** ***651-463-6130***
Date of Response:	***January 30, 2014***

Question 1

Reference: Minn. Stat. §216B.241, subd. 2(b) states, in part:

> **A public utility is eligible to file for adjustment for real and personal property taxes, fees, and permits under this subdivision only if, in the year previous to the year in which it files for adjustment, it has spent or invested at least 1.75 percent of its gross revenues from provision of electric service and 0.6 percent of its gross revenue from provisions of gas service for that year for energy conservation improvements in this section.**

Please provide the following actual data for analysis:

1. **DEA's 2013 Gross Operation Revenue;**
2. **DEA's 2013 Conservation Improvement Program (CIP) spending (excluding generator rebate); and**
3. **DEA's 2013 CIP spending with Great River Energy's (GRE) contributions (excluding generator rebates).**

Answer

1. DEA's 2013 Gross Operating Revenue was $193,896,155
2. DEA's 2013 Conservation Improvement Program (CIP) spending (excluding generator rebate) was $2,363,079
3. DEA's 2013 CIP spending with Great River Energy's (GRE) contributions (excluding generator rebates) was $3,817,738

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
Comments

Docket No. E111/M-14-46

Dated this **3rd** day of **February 2014**

/s/Sharon Ferguson

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