MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	December 6, 2018		Agenda Item 10**
Company	Great Plains Natural Gas Co. a Division of MDU Resources Group, Inc.		
Docket No.	**G-004/M-18-282**		
	In the Matter of the Petition of Great Plains Natural Gas Co., a Division of MDU Resources Group Inc., for Approval of a Gas Utility Infrastructure Cost Adjustment True-up Report for 2017, 2018 Revenue Requirement and Revised Adjustment Factors		
Issues	Should the Commission approve Great Plains Natural Gas Co.'s Gas Utility Infrastructure Cost adjustment true-up report for 2017, 2018 revenue requirement and revised adjustment factors?		
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✓ **Relevant Documents**	**Date**
Great Plains Natural Gas Company – Initial Filing	April 13, 2018
Department of Commerce – Comments	June 27, 2018

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

Relevant Documents	**Date**
Great Plains Natural Gas Company – Reply Comments	July 9, 2018
Great Plains Natural Gas Company – Reply Comments	July 23, 2018
Department of Commerce – Response to Reply Comments	September 4, 2018
Great Plains Natural Gas Company – Reply Comments	September 13, 2018
Department of Commerce – Response to Reply Comments – Additional	September 20, 2018

I. Statement of the Issues

Should the Commission approve Great Plains Natural Gas Co.'s Gas Utility Infrastructure Cost adjustment true-up report for 2017, 2018 revenue requirement and revised adjustment factors?

II. Background

Minn. Stat. § 216B.1635 allows utilities to seek rider recovery of gas utility infrastructure costs. Gas utility infrastructure costs are those that are not included in the gas utility's rate base in its most recent general rate case, and that are incurred in projects involving: (1) the replacement of natural gas facilities required by road construction or other public work by or on behalf of a government agency or (2) the replacement or modification of existing facilities required by a federal or state agency, including surveys, assessments, reassessment, and other work necessary to determine the need for replacement or modification of existing infrastructure. (A copy of Minn. Stat. § 216B.1635 is attached to the briefing papers.)

On October 6, 2017, the Minnesota Public Utilities Commission (PUC or the Commission) issued its ORDER APPROVING RIDER AND RATE ADJUSTMENT FACTORS, AND REQUIRING COMPLIANCE FILING[1] authorizing Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains, GP or the Company) to establish a Gas Utility Infrastructure Cost (GUIC) rider for the recovery of costs related to its Distribution Integrity Management Program (DIMP). Specifically, the Company identified two capital projects for replacing polyvinyl chloride (PVC) pipe mains and services throughout the Company's service territory.

On April 13, 2018, Great Plains filed, in this docket, its Annual Report and Petition for approval of recovery of updated GUICs under its GUIC Adjustment Tariff for 2018. Great Plains has included in this year's GUIC proposal, a true-up of under- and over-recovered costs (a true-up) from 2016 and 2017, as well as 2018 projected costs related to replacing PVC mains and services.

On June 27, 2018, the Department of Commerce, Division of Energy Resources (Department) filed Comments recommending the Commission approve GP's petition, subject to modifications and potential modifications, and requested the Company provide additional information regarding incremental expenses.

On July 9, 2018, GP replied to the Department, providing additional information as requested and reiterating its initial position. On July 23, 2018, the Company provided additional information highlighting an additional approach to ADIT proration as identified by Xcel Energy (Xcel) in Xcel's Transmission Cost Recovery (TCR) rider.[2] Great Plains supports Xcel's alternative proposal in Docket 17-797 and recommends the Commission consider the same approach in this Docket.

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[1] In the Matter of the Petition of Great Plains Natural Gas Co. for Approval of a Gas Utility Infrastructure Cost (GUIC) Tariff and Adjustment, Docket No. G-004/M-16-1066

[2] Docket No. E-002/M-17-797.

The Department and the Company, by way of supplemental written comments, have determined that GP's costs in the GUIC are not already being recovered in base rates. However Great Plains still opposes the Department's recommendation that the Commission require GP to use a historical test period for its GUIC and instead recommends that the Commission allow GP to continue using a forecast test period.

Great Plains' last general increase in rates was approximately $1.14 million per year, or 5.25%, in 2016, in Docket No. G-004/GR-15-879.

III. Parties' Comments

A. Great Plains Natural Gas Company – Initial Filing

1. Projects Included in GUIC

Great Plains has included 2016 and 2017 costs for projects submitted in Docket 16-1066 as well as forecasted project costs for 2018. The Company states these capital costs are related to the replacement of PVC mains and services performed under its DIMP. GP also notes that there is no salvage value associated with the PVC mains and services removed. The Company prepared Table 1 (reproduced below) demonstrating its project costs.[3]

Table 1: Great Plains 2016-2018 GUIC[4]

	Actual 2016	Actual 2017	Projected 2018
Replace PVC mains	$956,526	$1,710,848	$1,275,000
Replace PVC services	883,018	1,166,692	1,054,000
Total capital expenditure	$1,839,544	$2,877,540	$2,329,000

Great Plains also provided a qualitative discussion on its forecasting process.[5]

> Great Plains ensures that the costs of the projects are reasonable through 1) using a competitive bidding process with multiple contractors on larger projects and 2) closely watching costs to stay within the budgeted amounts or determine why expenditures were different from the budget. Overall, the projected expenditures are relatively stable over time.

Great Plains also provided Table 2 and Table 3 which compare its estimates (at the time of GP's 16-1066 filing) to the actual expenditures.[6]

[3] Great Plains, Initial Filing, Exhibit B, Page 3

[4] Table 1, as provided by Great Plains, did not include a header. The Table number and header has been provided by Staff.

[5] Great Plains, Initial Filing, Exhibit B, Page 3

[6] Great Plains, Initial Filing, Exhibit B, Page 4

Table 2: Comparison of 2016 Estimated Costs vs Actual Incurred Costs[7]

	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%

Table 3: Comparison of 2017 Estimated Costs vs Actual Incurred Costs[8]

	2017 Actual	2017 Estimated As Filed	Variance	% Capital Variance
Replace PVC mains	$1,710,848	$975,652	$735,196	75.35%
Replace PVC services	1,166,692	853,574	313,118	36.68%
Total capital expenditure	$2,877,540	$1,829,226	$1,048,314	57.31%
Mains (feet)	81,817	55,000	26,817	48.76%
Number of Services	669	604	65	10.76%

Great Plains explained that the differences between the actual and estimated costs were due to several costs being excluded from estimates that became necessary components of the 2017 projects including:

- Mandatory sewer lateral camera investigation charges;
- Loop lines installed in order to provide alternate feeds that were determined to be 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 discovered through the replacement project; and
- Replacement of existing system components where adequate DOT information was not available in the system in advance but upon inspection needed to be removed and replaced.

Overall, the Company is requesting a 2018 revenue requirement of $720,257 to be collected from October 2018 – September 2019. GP proposed rates in Table 4.[9]

[7] Table 2, as provided by Great Plains, did not include a header. The Table number and header has been provided by Staff.

[8] Table 3, as provided by Great Plains, did not include a header. The Table number and header has been provided by Staff.

[9] Great Plains, Initial Filing, Page 2

Table 4: Proposed Rates Effective October 1, 2018[10]
per Dekatherm (Dk)

	Proposed Rate	Current Rate	Change
Sales:			
Residential	$0.2494	$0.1485	$0.1009
Firm General	$0.1792	$0.1117	$0.0675
Small Interruptible	$0.1519	$0.0861	$0.0658
Large Interruptible	$0.1103	$0.0632	$0.0471
Transportation:			
Small Interruptible	$0.0791	$0.0657	$0.0134
Large Interruptible	$0.0105	$0.0315	($0.0210)

The proposed changes in the GUIC rates range from a high of approximately 75% for the interruptible sales customers to a decrease of 67% for the large interruptible transportation customers. For a residential customer that uses 90 Dekatherms of natural gas per year, the $0.1009 per Dk increase in the residential GUIC rate would be equivalent to a $9 per year increase in rates.

B. Department of Commerce – Comments

1. Filing Requirements

The Department confirmed that Great Plains provided all required information and that the Company has not submitted another true-up filing under the GUIC Statute this year. The Department also confirmed that the petition was filed at least 150 days in advance of the proposed implementation date.

2. Cost/Project Eligibility

The Department reviewed Great Plains' description of the costs/projects and confirmed that the costs/projects satisfy the GUIC Statute definitional requirements. The costs for which Great Plains is requesting recovery are limited to the DIMP capital costs for replacing polyvinyl distribution mains and services. Great Plains' petition also clarifies that the costs are limited to projects incurred for Great Plains' Minnesota customers.

3. Rate of Return

The Department concurs that GP's proposed rate of return, equal to the amount approved in its last general rate case, is in the public interest and that using 7.032% will maintain continuity and streamline the regulatory review process.

[10] Table 4, as provided by Great Plains, did not include a header. The Table number and header has been provided by Staff.

4. Revenue Requirement and Rate Calculation

The Department reviewed and confirmed GP's calculations supporting Great Plains' rates and ensured there were no errors. Additionally, the Department reviewed the Company's forecasting process and determined the Company has an incentive to accurately forecast, as it is the same process used internally for gas acquisitions.

The Department requested GP to discuss to what extent pipes being removed from the ground are included in rates. The Department requests Great Plains recalculate its GUIC with any non-incremental costs removed.

5. Prudency

The Department commented on GP's competitive bidding process and other means to ensure costs are reasonably incurred.[11]

> Based on the information provided by the Company in its petition and response to the Department's information request, the Department agrees that Great Plains has satisfied the subdivision 5 requirements. It is reasonably clear that Great Plains attempted to perform "at the lowest reasonable and prudent cost to ratepayers" and that the costs "are prudently incurred."

6. Accumulated Deferred Income Taxes

The Department recommends that the Commission order Great Plains to replace its forecasted prorated ADIT balances with actual non-prorated ADIT balances in its beginning-of-month and end-of-month average calculations for true-up purposes in future GUIC rider filings. The Department noted it is the same recommendation it has made in Xcel Energy's (Xcel) Transmission Cost Recovery (TCR) Rider[12] and Otter Tail Power's TCR Rider.[13] By using actual historical data, the issue of ADIT proration can be avoided all together.

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[11] Department, Comments, Pages 8-9

[12] Docket E-002/M-15-891

[13] Docket E-017/M-16-374

C. Great Plains Natural Gas Company – Reply Comments and Xcel Energy's Alternate Proposal

1. July 9, 2018 Reply Comments

a. Pipes Being Replaced

Great Plains replied to the Department's request to identify to what extent old pipes being removed are still included in rate base and base rates.[14]

> • Great Plains utilizes mass asset accounting for all assets recorded in FERC Accounts 376 and 380. Therefore, the accumulated reserve associated with the individual sections of pipe being replaced is not tracked separately. Therefore, it is not possible to make an accurate adjustment to rate base to account for the pipes being replaced. It should be noted, however, that the assets being replaced under the GUIC would be significantly depreciated at the time of replacement, which would minimize the amount (if any) included in rate base.
>
> • Upon the retirement of an individual asset in FERC Accounts 376 and 380, the original cost of the plant in service is removed and applied to the accumulated reserve balance with no resulting change in total rate base.
>
> • Great Plains utilizes the group depreciation methodology for FERC Accounts 376 and 380 (mass assets). The depreciation rates are updated annually in the Company's technical updates along with a full depreciation study every five years. The depreciation rates are based on total balances in the plant in service and accumulated reserve by FERC Account and reflect additions and retirements that have occurred on a life to date basis.
>
> • Great Plains does not include the cost of removal in its GUIC Adjustment.

Great Plains also noted that customers are not paying any more under its proposal than they would had GP elected to recover these costs in a general rate case.

2. July 23, 2018 Reply Comments

a. ADIT Proration

Great Plains reviewed Xcel's proposed alternative solution to the ADIT proration issue presented in Xcel's pending TCR Rider.[15] Great Plains summarized the main points to Xcel's alternative proposal.[16]

[14] Great Plains, July 9, 2018, Reply Comments, Page 2

[15] Docket E-002/M-17-797

[16] Great Plains, July 23, 2018, Reply comments, Page 2

> • Each forecast month would be considered a test period and only the monthly activity would be prorated by applying a mid-month convention for the proration factors each month.
>
> • The same calculation would be performed for the true-up period.

Great Plains supports Xcel's proposed method because it would avoid a potential normalization violation while simultaneously minimizing customer impact, however, the Company maintains that the GUIC Rider, as originally filed, meets the requirements of the GUIC Statute.

D. Department of Commerce – Response to Reply Comments – September 4, 2018

1. Pipes Being Replaced

Although GP did not reduce its revenue requirement to account for the impact of removing old pipes on rate base, the Department did acknowledge that GP did not include any additional removal costs associated with the pipes being replaced in its GUIC rider. Therefore, the Department does not specifically oppose the Company's treatment of the pipes being replaced in this docket but will consider the reasonableness on a case-by-case basis in future filings.

2. Prorated ADIT

The Department continues to recommend a historical test period.[17]

> Based on the above, the Department concludes that the IRS's solution of waiting until the end of the test period to implement rates is a reasonable, straight-forward and accurate fix for these problems. As such, the Department recommends that the Commission require GP's GUIC Rider to be based solely on historical costs by implementing the updated GUIC factor one day after the rate recovery period (January 1, 2019), rather than the requested date of October 1, 2018, thereby eliminating the need to prorate ADIT

3. Excess ADIT

The Department requested Great Plains to provide its excess ADIT balance for its GUIC Rider as of December 31, 2017.

E. Great Plains Natural Gas Company – Additional Reply Comments – September 13, 2018

Great Plains provided the requested excess ADIT balance for its GUIC Rider and continues to maintain its position to use a forecasted period.

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[17] Department, Response to Reply Comments, Page 5

F. Department of Commerce – Response to Additional Reply Comments – September 20, 2018

The Department filed an additional response urging the Commission to adopt its recommendation to use a historical period, but otherwise recommended the Commission approve GP's petition.

Additionally, the Department recommended the Commission order the Company to provide its excess ADIT balance and any related amortization amounts to be refunded in future GUIC rider filings.

IV. Staff Analysis

A. Revenue Requirement, Rate of Return, and Rate Design

Great Plains and the Department agree on the revenue requirement, rate of return, and the overall rate design. The Parties, through written comments, addressed concerns with the disposal of old pipes being removed from service and with incremental costs. The Department noted that it concurs with GP's accounting treatment (i.e. the group depreciation method) for the GUIC assets at issue in this filing specifically but intends to review future rider filings to ensure the requests are reasonable.

Great Plains determined its overall revenue requirement to be $720,257, as demonstrated in the table below.[18]

GUIC Costs and Recoveries	
2017 Actual Costs	$395,916
Less: Actual Recoveries (Nov 2017 – Mar 2018)	305,130
Less: 2018 Projected Recoveries (Apr – Sep 2018)	96,649
Net Over Recovery	($5,863)
2018 Revenue Requirement	$726,120
Total Required Recovery - Oct 2018 to Sep 2019	$720,257

Great Plains and the Department agreed to use the overall rate of return set in GP's previous rate case, Docket G-004/GR-15-879, which is 7.032%.

Great Plains and the Department agreed to continue to use the rate design approved in GP's previous rate case, excluding flexible rate customers. Flexible Rate Customers are subject to competition and are price-sensitive; changes in rates could persuade them to leave the system. The adjusted rates are reflected in Table 4 of these Staff Briefing Papers.

[18] Great Plains, Initial Petition, Page 1

B. ADIT Proration and Implementation Date

The only issue that is disputed between the Company and the Department relates to the implementation date and its effect on ADIT proration. Great Plains provided its initial position, which it still prefers, but also contemplated the use of a monthly forecast period as proposed by Xcel Energy in its TCR rider, Docket 17-797. All three proposals are discussed in the Staff Analysis below.

The Commission historically has considered each rider filing based on its own facts and circumstances rather than applying a general rule or policy adopted for all utilities in all filings. Several Dockets, including Xcel's GUIC Rider,[19] Xcel's TCR Rider,[20] and Minnesota Power's (MP's) Renewable Resource Rider[21] have allowed the utility to use a forecasted period. Conversely, the Commission recently ordered Xcel to use a historical test period in its State Energy Policy (SEP) Rider.[22]

1. Great Plains' Initial Position

Great Plains, in its initial petition, provided its forecast for the 2018 GUIC. The Company also explained the large differences between its projections and its actual expenses. Additionally, GP explained its competitive bidding process. Great Plains is confident in its forecasting methodology, does not believe it is in violation of IRS normalization rules, and recommends the Commission allow it to begin recovering costs on October 1, 2018.

2. Great Plains' Alternative Proposal

Great Plains is supportive of Xcel's proposal to use a monthly rather than annual test period. Xcel engaged Deloitte Tax Services (Deloitte) to evaluate the Company's rider calculations. Deloitte identified three potential modifications.[23]

> 1) Treat each forecast month as a test period since the revenue requirements in these riders are calculated monthly. This allows the monthly ADIT balance to be reset to its un-prorated beginning balance and only the monthly activity receives the proration.
>
> 2) Then apply a mid-month convention for the proration factors in each month.
>
> 3) Remove ADIT from the beginning-of-month and end-of-month rate base average, since the proration is itself a form of averaging. These treatments reduce the proration impact to the ratepayers in these rider mechanisms significantly.

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[19] Docket G-002/M-17-787

[20] Docket E-002/M-17-797

[21] Docket E-015/M-18-375

[22] Docket G-002/M-18-184

[23] Docket E-002/M-17-797, Xcel Energy, Supplemental Comments, May 25, 2018

The net impact on the overall annual revenue requirement would be a reduction of $757 from the amount requested in GP's initial petition.[24]

> Applying the above methodology to Great Plains' request would result in a reduction of $757 in the requested revenues to be recovered under the GUIC. The 2017 true-up would be $312 more than as filed since the Company did not originally prorate the 2017 true-up and the 2018 projection would be $1,069 less.

3. Department's Position

The Department disputes both proposals made by Great Plains. The Department feels that GP's alternate proposal to use a monthly test period, while technically compliant with IRS normalization rules, is needlessly complicated and should be rejected. The Department's recommendation is to require GP to wait to implement the adjustment and the new revenue requirement so that they are effective one day following the rate recovery period, or January 1, 2019, which would eliminate the need to prorate ADIT.

[24] Great Plains, Reply Comments, July 23, 2018, Page 2

V. Decision Options

GUIC Rider Filing, Revenue Requirement, and Adjustment Factors

1. Approve Great Plains petition for its Gas Utility Infrastructure Cost adjustment tariff true-up report for 2017, 2018 revenue requirement ($720,257) and revised adjustment factors (as shown in Table 4 of Staff Briefing Papers), including the Company's proposed rate of return (7.032%). (GP, Department) or

2. Deny Great Plains petition for its Gas Utility Infrastructure Cost Adjustment tariff true-up report for 2017, 2018 revenue requirement and revised adjustment factors.

ADIT Proration and Implementation Date

3. Allow Great Plains to use the forecasted test period as proposed in its initial petition. (GP) or

4. Allow Great Plains to use the monthly forecast methodology, treating each month as an individual test period, as detailed in its July 23, 2018 Supplemental Reply Comments, resulting in a net reduction of revenue requirement of $757 from the initially proposed amount. (GP – Alternative) or

5. Require Great Plains' Gas Utility Infrastructure Cost rider rates to be implemented prospectively one day after the rate recovery period (i.e. not before January 1, 2019). (Department)

Additional Requirements

6. Require Great Plains to include, in future Gas Utility Infrastructure Cost filings, its excess ADIT balance and any related amortization amounts to be refunded to customers. (Department)

Compliance Filing

7. Require Great Plains to submit a compliance filing within 10 days of the Commission's order that includes the new, authorized tariff language and a revised (as needed) customer bill insert (please see GP's initial filing, exhibit G) that explains the change in rates. (Staff)