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April 15, 2020

The Honorable Ann C. O'Reilly
Administrative Law Judge
Office of Administrative Hearings
PO Box 64620
St. Paul, MN 55164-0620

Re: ***In the Matter of the Petition by Great Plains Natural Gas Company, a Division of Montana-Dakota Utilities, Co., for Authority to Increase Natural Gas Rates in Minnesota***
OAH Docket No. 65-2500-36528; MPUC Docket No. G004/GR-19-511

Dear Judge O'Reilly:

Enclosed and filed herewith, find please find the **Joint Proposed Findings on Undisputed Issues** prepared by the parties, Great Plains Natural Gas Company, a Division of Montana-Dakota Utilities, Co. (Great Plains), the Office of the Minnesota Attorney General, Residential Utilities Division (OAG), and the Minnesota Department of Commerce, Division of Energy Resources (DER).

Sincerely,

/s/ Linda S. Jensen
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Enclosure

OAH Docket No. 65-2500-36528

BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 NORTH ROBERT STREET
ST. PAUL, MINNESOTA 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
SUITE 350
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ST. PAUL, MINNESOTA 55101-2147

Katie Sieben	Chair
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
Joe Sullivan	Commissioner
John Tuma	Commissioner

In the Matter of the Petition by Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Authority to Increase Natural Gas Rates in Minnesota	MPUC Docket No. G-004/GR-19-511 OAH Docket No. 65-2500-36528

JOINT PROPOSED FINDINGS
ON UNDISPUTED ISSUES

April 15, 2020

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I. INTRODUCTION

- Great Plains Natural Gas Co., a Division of Montana Dakota Utilities Co., (Great Plains, GP or Company), the Office of Attorney General - Residential Utilities Division, (OAG) and the Minnesota Department of Commerce, Division of Energy Resources, Energy Regulation and Planning Unit (Department or DER) (the Parties) respectfully submit these Joint Proposed Findings on Resolved Issues pertaining to the application for a general rate increase filed by Great Plains.

II. PROCEDURAL HISTORY

- On August 27, 2019, Great Plains filed sales forecast data with the Commission, 30 days in advance of its petition for a general rate case, as was required by the Commission's order in the Company's last general rate case.[1]

- On September 27, 2019, the Company filed a general rate case petition requesting a $2,860,839[2] increase in Minnesota natural gas rates, or an approximately 12.0 percent overall increase, effective January 1, 2020, based on a forecasted 2020 test year[3] and a proposed 10.2 percent rate of return on equity.[4] The Company also proposed a $2,600,907 interim rate increase, or an approximately 10.98 percent increase, effective January 1, 2020, in the event the Commission elected to suspend the proposed rates.[5] The return on equity for the interim rate proposal was 9.06 percent.[6]

- On October 1, 2019, the Commission issued a notice requesting initial comments by October 7, 2019 with reply comments due by October 14, 2019 on two issues. The first issue was whether Great Plains' petition complied with the filing requirements of Minn. Stat. § 216B.16 (2018), Minn. R. 7825.3100 – .4400 (2019), and relevant Commission

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[1] *In the Matter of the Petition by Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc., for Authority to Increase Natural Gas Rates in Minnesota,* Docket No. G-004/GR-15-879, Findings of Fact, Conclusions, and Order at 52 (Sept. 6, 2016) (GREAT PLAINS 2015 RATE CASE ORDER).

[2] The $2,860,839 increase represents the net increase to customers based on the revenues produced by the proposed rates net of the revenues produced by the Gas Utility Infrastructure Cost (GUIC) mechanism. *See* Ex GP-1 General Rate Petition Materials, Summary of Filing at 1. The increase in revenue requirement net of the GUIC adjusted to exclude the GUIC surcharge revenues represents an increase of $2,849,686 in the revenue requirement. *See* Ex. GP-21 at 5 (Jacobson Direct); Ex. GP-1, Great Plains Volume III, Statement A (Jurisdictional Financial Summary).

[3] Ex. GP-21 at 5 (Jacobson Direct); Ex. GP-1, Great Plains Volume III, Statement A (Jurisdictional Financial Summary) (Sept. 27, 2019).

[4] Ex. GP-14 at 109 (Bulkley Direct).

[5] Petition for Interim Rates at 3-4 (Sept. 27, 2019).

[6] *Id*. at 3.

orders. The second issue was whether this matter should be sent to the Office of Administrative Hearings (OAH) for an evidentiary hearing on the proposed rate change.[7]

- On October 3, 2019 and October 7, 2019, respectively, the Department and the OAG filed comments. The Department recommended that the Commission accept Great Plains' rate case filing in the present docket as complete and refer this matter to the OAH.[8] The OAG recommended that the Commission require Great Plains to assign all ratepayers a proportionate share of the interim revenue deficiency and remove organizational dues expenses from interim rates that were disallowed in the last rate case.[9]

- On October 14, 2019, the Company agreed that the case should be referred to the OAH and that previously disallowed organizational dues should be removed from interim rates.[10] Additionally, Great Plains disagreed with the OAG's recommendation that flexible tariff rate customers be assigned a share of interim rates.[11]

- During the agenda meeting on November 7, 2019, the Commission considered whether to accept the Company's petition as complete, suspend the proposed rates, refer the matter to the OAH, and set interim rates as requested.[12]

- On November 22, 2019, the Commission issued three orders in the present docket. First, the Commission accepted the Company's filing as complete as of September 27, 2019, suspended the proposed final rates, and extended the suspension period until August 26, 2020.[13] Second, the Commission authorized Great Plains to implement interim rates, but denied its request to recover forgone flexible rate customer interim revenue from its remaining customers.[14] Third, the Commission referred the matter to the OAH for contested case proceedings and directed the Company to notify customers of the evidentiary and public hearings.[15]

- On December 18, 2019, the matter came before Administrative Law Judge (ALJ) Ann C. O'Reilly for a prehearing conference to discuss time frames, scheduling, discovery procedures, and similar issues.

- On January 9, 2020, the Commission considered, and on January 13, 2020 issued an order relating to a request filed by Great Plains on September 6, 2019 in the *Great Plains 2015*

[7] NOTICE OF COMMENT PERIOD ON COMPLETENESS AND PROCEDURES at 1 (Oct. 1, 2019).
[8] Initial Comments of the Department at 2 (Oct. 7, 2019).
[9] Initial Comments of the OAG at 4 (Oct. 7, 2019).
[10] Reply Comments of Great Plains at 1–2 (Oct. 14, 2019).
[11] *Id.* at 2–4.
[12] NOTICE OF COMMISSION MEETING at 2 (Oct. 25, 2019).
[13] ORDER ACCEPTING FILING, SUSPENDING RATES, AND EXTENDING TIMELINE at 2 (Nov. 22, 2019).
[14] ORDER SETTING INTERIM RATES at 4 (Nov. 22, 2019).
[15] NOTICE OF AND ORDER FOR HEARING at 5–6 (Nov. 22, 2019).

Rate Case and a related *Extension Docket* as follows:[16] (1) approving a one-year extension to Great Plains' pilot full Revenue Decoupling Mechanism (RDM) Rider (which had been first approved as a three-year pilot program in the *Great Plains 2015 Rate Case*[17]*)* (2) directing Great Plains to update its tariff sheets to reflect the extension, and (3) agreeing with and adopting the recommendations of the Department, which were attached and incorporated into the order.

- On January 6, 2020, ALJ O'Reilly issued the First Prehearing Order that set procedures and established a schedule for the case.

- On January 13, 2020, an amended First Prehearing Order was issued to clarify the schedule for the case, as shown below:

DATE	EVENT	DESCRIPTION
January 10, 2020	Intervention Deadline	All petitions for intervention shall be served and filed by this date.
January 16, 2020	Direct Testimony Due	Direct testimony shall be served and filed by this date
February 11, 2020	Rebuttal Testimony Due	All rebuttal testimony shall be served and filed by this date.
February 24, 2020	Public Hearings: 11:00 a.m. in Marshall 6:00 p.m. in Fergus Falls	Public hearings will be held at: Marshall-Lyon County Library 201 C Street, Marshall, MN National Guard Armory 421 E. Cecil Avenue Fergus Falls, MN
March 3, 2020	Surrebuttal Testimony Due	All surrebuttal testimony shall be served and filed by this date.
March 3, 2020	Close of Public Comment Period	All public comments must be eFiled or receive by the Commission on this date.
March 4, 2020	Settlement Conference 10:00 a.m.	All parties and participants shall appear for an in-person settlement conference pursuant to Minn. Stat. § 216B.16, subd. 1a (2018).

[16] *In the Matter of the Application of Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc., for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-004/GR-15-879 (*Great Plains 2015 Rate Case*) and *In the Matter of the Request of Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc., for a One-Year Extension of Revenue Decoupling Pilot Program,* Docket No. G-004/M-19-198 (*Extension Docket*), ORDER (Jan. 13, 2020).

[17] Great Plains' first full RDM became effective on January 1, 2017, and was scheduled to end on December 31, 2019.

March 6, 2020	Service and Filing of Proposed Witness Lists, Proposed Exhibit Lists, and Proposed Exhibits	By 4:30 p.m., the parties shall serve and file, in the eDockets system, their proposed witness lists, proposed witness lists, and proposed exhibits. Proposed exhibit lists shall be clearly named and filed as: "[Party Name's] Proposed Exhibit List."
March 10 – 11, 2020	Evidentiary Hearing 9:30 a.m.	An evidentiary hearing will be held in the large conference room of the Public Utilities Commission in St. Paul, MN, commencing at 9:30 a.m. each day.
March 26, 2020	Applicant's Proposed Issue Matrix to be Circulation	Applicant shall circulate among the parties its proposed Issue Matrix for review and revision by the parties. The Issue Matrix should plainly state the subject of the dispute without background, editorializing, or argument. The Issue Matrix shall also list the testimony on each dispute.
April 10, 2020	Final Issue Matrix Due	The parties shall jointly file a final Issues Matrix identifying the issues in the dispute and the evidence addressing such issues. The parties shall work together to create a single Issue Matrix for the Judge.
April 10, 2020	Initial Briefs Due	By 4:30 p.m., the parties shall serve and file their Initial Briefs.
April 24, 2020	Responsive Briefs and Proposed Findings Due	By 4:30 p.m., the parties shall serve and file their Response Briefs and Proposed Findings.
June 30, 2020	Administrative Law Judge's Report Due	The Judge shall file her Findings of Fact, Conclusions of Law, and Recommendation.
July 15, 2020	Exceptions Due	By 4:30 p.m., the parties shall serve and file their Exceptions to the Administrative Law Judge's Report.
September 18, 2020 (anticipated)	Commission Decision Due	The Commission shall issue its decision on or before September 18, 2020.

- On January 10, 2020, the OAG filed a petition to intervene.

- On January 16, 2020, the Department and OAG filed direct testimony.

- On January 22, 2020, the DOC DER requested minor revisions to the Amended First Prehearing Order.

- On January 24, 2020, the ALJ issued the Second Prehearing Order granting the OAG full party status, acknowledging that the Commission named DER as a party to this proceeding in its November 22, 2019 Notice of and Order for Hearing, and making minor revisions to the First Prehearing Order.

- On February 11, 2020, Great Plains and DER filed rebuttal testimony.

- On February 20, 2020, the Commission filed a notice of public hearings.

- On February 24, 2020, two public hearings were held – an afternoon hearing in Marshall, Minnesota and an evening hearing in Fergus Falls, Minnesota. One member of the public attended the hearing in Marshall and commented regarding the Company's proposed twelve percent residential rate increase.

- On March 3, 2020, the Department and OAG filed surrebuttal testimony.

- On March 4, 2020, the ALJ held a prehearing settlement conference pursuant to Minn. Stat. § 216B.16, subd. 1a (2018). During the conference, the Company and the Department reached resolutions of certain previously unresolved issues.

- On March 9, 2020, the Company filed a "Motion to Include Limited New Information in the Record of Great Plains Natural Gas Co."

- On March 10, 2020 the Department filed a "Motion to Deny Great Plains' Motion and Exclude Certain Portions of Ann E. Bulkley's Witness Summary Statement," together with a letter motion for Department Witness Craig Addonizio to respond to Ms. Bulkley's Witness Summary.

- On March 10, 2020, the ALJ held an evidentiary hearing at the Commission's offices in St. Paul, Minnesota.[18] During the proceedings the ALJ determined to grant the motion of Great Plains, admit Ann E. Bulkley's Witness Summary, including the new information, and to hold open the evidentiary record to permit Mr. Addonizio to file a response of up to three pages in length, to which no further response was permitted.[19]

- On March 12, 2020, the Department filed Mr. Addonizio's Response to Ms. Bulkley's Summary Statement.[20]

- On March 30, 2020, the Parties filed a Joint Issues Matrix.

- On April 10, 2020, the Department, Company and OAG filed initial briefs.

- On April 15, 2020, the Department, Company and OAG filed stipulated proposed findings regarding issues that had been resolved prior to the evidentiary hearing.

- On April __, 2020, the Department, Company and OAG served and filed their response briefs and proposed findings on issues that were not resolved prior to the evidentiary hearing.

[18] Evidentiary Hearing Transcript Volume (Tr. Vol.).
[19] Tr. Vol. at 8-32.
[20] Ex. DER-23 (Addonizio Response to GP Witness Ann E. Bulkley's Summary Statement).

III. STATEMENT OF THE ISSUES

- The Notice of and Order for Hearing identified the following issues to be addressed:

    - Whether the test year revenue increase sought is reasonable or will result in unreasonable and excessive earnings;
    - Whether the proposed rate design is reasonable;
    - Whether the proposed capital structure and return on equity is reasonable;
    - Whether the Revenue Decoupling Mechanism (RDM) pilot program should be extended beyond 2020 and, if so, for how long;
    - Whether the proposed margin sharing mechanism should be incorporated into the RDM;
    - Whether a minimum energy savings level should be required in order to implement an RDM surcharge;
    - The impact of suspending the Gas Utility Infrastructure Cost (GUIC) rider;
    - Whether the Company intends to continue GUIC rider use after the rate case;
    - The Company's preferred stock redemption;
    - The sales forecast accuracy; and
    - The Company's decision to propose a change to Conservation Cost Recovery Adjustment (CCRA) factor in the present docket, instead of a Conservation Improvement Program Tracker/demand side management (DSM) financial incentive docket.[21]

IV. FINDINGS

1. BURDEN OF PROOF

[PLACEHOLDER FOR DISCUSSION OF BURDEN OF PROOF]

2. SUMMARY OF FINANCIALS: RATE BASE, OPERATING INCOME, AND EXPENSES

- Many financial issues reviewed and identified in the initial testimony of the Department were subsequently resolved. The only financial issue on which the OAG took a position, Organization Dues, remains unresolved. The financial issues,[22] disputed and resolved, between the Department and OAG, on the one hand, and the Company, on the other, are as follows:[23]

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[21] NOTICE OF AND ORDER FOR HEARING at 2 and n.2 (Nov. 22, 2019).
[22] Sections three and four include issues relating to resolved and unresolved rate base, operating income and expenses. Cost of capital is discussed in sections five and six below, and the sales forecast is discussed in section seven.
[23] Ex. DER-14 at 13-15 (Byrne Surrebuttal); Ex. DER-15 at 9-11, DVL-S-2 (Lusti Surrebuttal); Ex. DER-21 (Byrne Summary); DER-22 (Lusti Summary); Ex. OAG-2 at 9 (Lebens Surrebuttal).

Disputed in whole or part	Fully Resolved
A. Organization Dues to Minn. Utilities Investor Assn. and Edison Electric Institute	A. Benefits Expense
B. Incentive Compensation Not Paid	B. Subcontracted Labor Expense
C. Rate Case Expenses Not Incurred	C. CIP Expense & CCRA Adjustment Factor
	D. GUIC Rider
	E. Average Rate Base-2020 Beginning Balance Placeholder
	F. Cash Working Capital
	G. Rate Base
	H. Bonus Expense
	I. Interest Expense Synchronization

3. DISPUTED AND PARTLY DISPUTED FINANCIAL ISSUES

A. Dues to Minnesota Utilities Investor Association and Edison Electric Institute

<u>Disputed</u> between DER and Great Plains: The DER recommended that the Commission disallow Great Plains' proposed test year expense of MUI dues. Ex. DER-6 at 7-10 (Byrne Direct); Ex. DER-14 at 6-10 (Byrne Surrebuttal); Ex. DER-21 (Byrne Summary); Ex. GP-21 at 21-22 and TRJ-1 at 3 (Jacobson Direct); Ex. GP-23 at 2-4 (Jacobson Rebuttal); Ex. GP-24 (Jacobson Summary).

<u>Disputed</u> between OAG and Great Plains: The OAG recommended disallowance of both MUI dues and EEI dues. Ex. OAG-1 at 7-9 (Lebens Direct); Ex. OAG-2 at 7-9 (Lebens Surrebuttal); Ex OAG-3 (Lebens Summary).

[PLACEHOLDER FOR DISPUTED ISSUE OF DUES]

B. Incentive Compensation—<u>Partly</u> Resolved

<u>Resolved</u> between DER and Great Plains: The Department agreed to the Company’s proposed test-year expense for incentive compensation, under which ratepayers would pay for 100 percent of its employees’ target level incentive compensation, capped at 15 percent of salary.

<u>Disputed</u> between DER and Great Plains: Great Plains opposes the Department's recommendation that the Company be required to file an annual incentive compensation report or refund to ratepayers incentive compensation the Company does not pay to employees. Ex. DER-22 (Lusti Summary); Ex. DER-7 at 8-12 (Lusti Direct); Ex. DER-

15 at 4-7 (Lusti Surrebuttal); Ex. GP-21 at 18 (Jacobson Direct); Ex. GP-23 at 5-6 (Jacobson Rebuttal); Ex. GP-24 (Jacobson Summary).

- The incentive compensation expense issue has two interrelated parts: (1) the level of incentive compensation to be included in the test-year expenses, and (2) whether Great Plains should be required to file an annual report showing whether the incentive compensation was actually paid to employees under the program. The Department witness, Mr. Lusti, indicated that the Department's acceptance of the proposed level of incentive compensation was premised on the filing of an annual incentive compensation report to determine whether refunds need to be made.[24]

- As to the amount of the test-year expense, the Department determined that the Company included a reasonable amount of incentive compensation in the test year. The Company's proposed test-year level of incentive compensation was $261,892,[25] an amount that was based on the use of a 9.5 percent incentive compensation rate, applied to the 2020 test-year straight-time and vacation labor expense.[26] The "9.5 percent incentive compensation rate" was the result of dividing the total incentive compensation payout, based on the 100 percent target level of those in each job classification, capped at 15 percent of salary, by the total salary of all job classifications eligible for incentive compensation.[27]

  [PLACEHOLDER FOR DISPUTE REGARDING REPORTING ON AMOUNTS NOT PAID]

C. Rate Case Expenses—<u>Partly</u> Resolved

<u>Resolved</u> between DER and Great Plains: Great Plains and the Department agreed on the amount of rate case expense that should be recoverable from ratepayers, and on the amortization period.

<u>Disputed</u> between DER and Great Plains: Great Plains and the Department disagree whether Great Plains should track any over-recovery from ratepayers of rate case expenses, and apply that credit to the revenue requirement in its next rate case. Ex. GP -2 Statement Workpapers at C2-19; Ex. GP-21 at 23-24 (Jacobson Direct); Ex. GP-23 at 6

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[24] Ex. DER-7 (Lusti Direct at 9). (Mr. Lusti testified: "Q: Do you agree that Great Plains included a reasonable amount of incentive compensation in the test year? A. Yes. *However,* since the Company's proposal is based upon all employees earning their individual 100 percent of target level incentive compensation, capped at 15 percent of salary, it is reasonable for the Company to refund to ratepayers all incentive compensation amounts approved by the Commission and included in base rates that are not paid out to employees under the program. To determine the amount of actual incentive compensation paid that is recoverable from ratepayers, the Company should apply the 15 percent cap to each employee's salary.") (emphasis added).

[25] Ex. DER-7 at 8 (Lusti Direct); Ex. GP-2, Vol. III, Statement C, Schedule C-2, page 10 of 27.

[26] Ex. DER-7, DVL-8 (Lusti Direct) (Great Plains' Response to Department IR No. 116).

[27] Ex. DER-7 at 9 and DVL-8 (Lusti Direct).

(Jacobson Rebuttal); Ex. DER-7 at 13-14 (Lusti Direct); Ex. DER-15 at 7-8 (Lusti Surrebuttal); Ex. DER-22 (Lusti Summary Statement).

- The amount of rate case expense was resolved between the Department and Great Plains, which Great Plains estimated to be $592,555 in this proceeding.[28] The estimate included six categories of costs:[29]

  (1) Rate of Return Consulting Fees;
  (2) Outside Legal Fees;
  (3) Great Plains' Staff Hearing Expense;
  (4) Montana-Dakota Staff Public Input Meeting Expense;
  (5) State Agency Fees; and
  (6) Administrative Costs (Federal Express and Miscellaneous).

- The Department did not dispute the Company's estimate of the rate case expenses[30] nor the Company's proposal to use to a four-year amortization period to collect the expense.[31]

  [PLACEHOLDER FOR DISPUTED ISSUE, OVER-RECOVERY OF RATE CASE EXPENSE]

4. UNDISPUTED FINANCIAL ISSUES

A. Benefits Expense

Resolved between DER and Great Plains: The Company's Direct Testimony proposed a test-year benefits expense of $727,614. Great Plains thereafter agreed with DER's recommendation to reduce benefits expense by $38,897. Ex. GP-21 at 19 (Jacobson Direct); Ex. DER-6 at 3-7, ACB-2 (Byrne Direct); Ex. DER-14 at 2-3 (Byrne Surrebuttal); Ex. GP-23 at 3-4 and TRJ-3 (Jacobson Rebuttal); Ex. GP-24 (Jacobson Summary); Ex. DER-21 (Byrne Summary).

- Great Plains' initial case proposed test-year benefits expense consisting of several items, in the projected amounts shown in Table 1:[32]

[28] Ex. GP -2 Statement Workpapers at C2-19.
[29] Ex. DER-7 at 13 (Lusti Direct).
[30] Ex. DER-7 at 14 (Lusti Direct).
[31] Ex. GP-21 at 23 (Jacobson Direct); Ex. DER-7 at 14 (Lusti Direct).
[32] Ex. GP-21 at 19 (Jacobson Direct); Ex. DER-6 at 4 (Byrne Direct) (*citing* Ex. GP-2 (Vol. III, Statement C, schedule C-2, page 13 of 27, fns.) (Sept. 27, 2019).

Table 1: Company-Proposed Test-Year Benefits Expenses

Expense Category	Amount
Medical/Dental	$504,227
Pension	$13,156
Post-Retirement	($93,337)
401(k)	$279,658
Workers Compensation	$20,314
Other Benefits	$3,596
Total	$727,614

- In response to a Department information request (IR), Great Plains provided historical, actual benefits expenses for 2016 through 2018, and an updated projection for 2019 that included the 2019 calendar year actual benefits expenses where actual data were available.[33] The information shown in Table 2.[34]

Table 2: Great Plains Historical and Updated Benefits Expenses

Year	2016	2017	2018	IR No. 106 Projected 2019
Medical/Dental	$377,404	$408,415	$398,409	$458,090
Pension	$21,525	$14,972	$19,375	$61,633
Post Retirement	$(7,266)	$(20,901)	$(68,048)	$(92,112)
401(k)	$269,808	$284,671	$252,111	$248,111
Workers Compensation	$30,349	$18,464	$18,913	$22,126
Other Benefits	$4,482	$5,299	$3,199	$3,505
Total	$696,302	$710,920	$623,959	$701,353

- The updated projected 2019 benefits expense of $701,353 is $33,879 less than the $735,232 amount forecasted for 2019 in the Company's Initial Filing.[35]

- The Department witness indicated that the amount of $701,353 was more in line with Great Plains' historical expenses since its last rate case than was the amount shown in Table 1 above, as initially proposed. Further, the individual category percentage increases proposed by Great Plains to estimate 2020 test-year expenses were also in line with previous year-over-year increases for such non-actuarial expenses.[36]

[33] Ex. DER-6 at 4 (Byrne Direct) (*citing* Department Information Request (IR) No. 106).
[34] *Id*. at 4-5, ACB-1.
[35] *Id*. at 5. (The amount was calculated using actual expenses through October 2019, with annualized amounts for the remaining two months of the year.)
[36] *Id.* at 5-6.

- The Department witness concluded that it was reasonable to base the Pension and Post-Retirement expense estimates on actuarial estimates, and to base the remaining expense estimates on reasonable percentage increases from the 2019 projections.[37] Accordingly, she recommended that the 2020 test year be calculated by using the actuarial estimates for Pension and Post-Retirement Benefits, and applying the Company's proposed six percent increase for the Medical/Dental category and three and a half percent increase for 401(k), Workers Compensation, and Other Benefits to the updated projected 2019 amounts provided in response to the Department's IR No. 106.[38]

- The Department's recommendation resulted in an overall downward adjustment of the test-year expense in the amount of $38,897, as shown in Table 3.[39]

Table 3: Department-Recommended Test-Year Benefits Expenses[40]

Category	Company Proposed 2020 Test Year	From Table 2 IR No. 106 Projected 2019	Adjustment	DOC DER Recommended Amount	DOC DER Adjustment to 2020 TY
Medical/Dental	$504,227	$458,090	+ 6%	$485,575	($18,652)
Pension	$13,156	$61,633	Actuarial	$13,156	$ -
Post-retirement	($93,337)	$(92,112)	Actuarial	($93,337)	$ -
401(k)	$279,658	$248,111	+ 3.5%	$256,795	($22,863)
Workers Compensation	$20,314	$22,126	+ 3.5%	$22,900	$2,586
Other Benefits	$3,596	$3,505	+ 3.5%	$3,628	$32
Total	$727,614	$701,353		$688,717	($38,897)

- Great Plains agreed with this adjustment, which reduces its initial proposed test-year benefits expense of $727,614 by $38,897, to $688,717.[41]

B. Subcontracted Labor Expense

Resolved between DER and Great Plains: The Company agreed with DER's recommendation to reduce test-year subcontractor labor expenses by $81,397. Ex. DER-6, ACB-5 (Byrne Direct); Ex. GP-23 at 4 (Jacobson Rebuttal); Ex. DER-21 (Byrne Summary).

- To calculate its proposed 2020 test-year expense for subcontracted labor, Great Plains first estimated its 2019 subcontract labor expense to be $515,563; and then applied a

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37 *Id.* at 6.
38 *Id.*
39 *Id.*
40 *Id.* at 7, ACB-2 (Byrne Direct).
41 Ex. GP-23 at 3-4 (Jacobson Rebuttal); Ex. DER-14 at 3 (Byrne Surrebuttal).

1.94 percent inflation factor to arrive at its proposed 2020 test-year amount of $525,564.42.[43]

- Department witness, Ms. Byrne, determined that the estimated 2019 subcontracted labor expense did not seem reasonable when compared with the Company's 2018 actual expense. Great Plains' Minnesota jurisdictional 2018 expense amount was $464,187, which is over $50,000 *less* than the 2019 amount the Company's initial filing projected for its 2019 subcontracted labor expense.[44]

- In its response to Department IR No. 122, which requested 2016 through 2018 historical actuals and an updated 2019 projection,[45] the Company provided the actual amounts for 2016-2018 and an updated projection for 2019 in below Table 4.

Table 4: Historical and Updated Subcontract Labor[46]

Year	Amount
2016 Actual	$399,118
2017 Actual	$416,029
2018 Actual	$464,187
Updated Projected 2019	$435,715
2020 Proposed Test Year	$525,564

- Table 4 shows that the Company's subcontracted labor expense increased from 2016 to 2018, but the updated projection for 2019 showed a decrease in expense from 2018. In fact, the Company's updated projection for 2019 was approximately $80,000 less than the amount the Company had projected in its Initial Filing.[47]

- The Department concluded that the Company's proposed 2020 test-year subcontracted labor expense amount was not reasonable, in light of its response to IR No. 122 and Great Plains' failure to provide any information to justify a proposed test-year subcontracted labor expense so much higher than the previous four years.[48]

- The Department recommended that, because the Company's historical expenses increased through 2018, it would be reasonable to apply to the updated 2019 projected amount, the 1.94 percent inflation factor that Great Plains used to calculate

[42] Ex. GP-2 (Vol. III, Statement C, Schedule C-2, page 14 of 27) (Sept. 27, 2019).
[43] Ex. DER-6 at 11 (Byrne Direct).
[44] *Id.*
[45] *Id.*
[46] *Id.* at 11-12, ACB-4 (Byrne Direct).
[47] *Id.* at 12.
[48] *Id.*

its initial test-year proposal.[49] This results in a test-year subcontracted labor expense of $444,168, which is a downward adjustment of $81,397 from Great Plains' proposed test-year expense of $525,564.[50]

- Great Plains agreed with the Department's recommended adjustment.[51]

- The estimated financial impact of this recommendation reduced test-year operation and maintenance (O&M) expenses (of which subcontracted labor is a part) by $81,397.[52]

C. Conservation Improvement Program (CIP) Expense & Conservation Cost Recovery Adjustment (CCRA) Factor

Resolved between DER and Great Plains: DER recommended approval of Great Plains' proposed level of CIP expense (as the basis for its Conservation Cost Recovery Charge (CCRC) rate). The Company agreed to the Department's recommendation that any changes to the CCRA Factor should be considered and determined in the Company's upcoming annual (2020) CIP tracker and financial incentive proceeding rather than in the instant rate case. Ex. GP-21 at 20 (Jacobson Direct); Ex. DER-6 at 13-16, 21 (Byrne Direct); Ex. GP-31 at 12 (Bosch Direct); Ex. GP-32 at 2-3 (Bosch Rebuttal); Ex. DER-21 (Byrne Summary).

- There are two resolved issues regarding the topic of CIP expense and the CCRA Factor. The first is the standard rate case issue of the appropriate amount of CIP test-year expense. The second resolved issue is a subject of the Commission's NOTICE OF AND ORDER FOR HEARING, which requested that the parties develop a record regarding the Company's proposal to make a change to the CCRA Factor in the present docket, instead of in a separate docket that was concerned solely with the CIP cost tracker and demand-side management (DSM) financial incentive.[53]

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[49] *Id.* at 12-13 (*citing* footnotes of Ex. GP-2 (Initial Filing, Vol. III, Statement C, Schedule C-2, page 13 of 27) (Sept. 27, 2019)).
[50] *Id.* at 12-13, ACB-5 (Byrne Direct).
[51] Ex. GP-23 at 4 (Jacobson Rebuttal); Ex. DER-14 at 3-4 (Byrne Surrebuttal).
[52] Ex. DER-6, ACB-5 (Byrne Direct); Ex. DER-14 at 3 (Byrne Surrebuttal); Ex. DER-21 (Byrne Summary).
[53] NOTICE OF AND ORDER FOR HEARING at 2 (Nov. 22, 2019)(Great Plains proposed a change to the CCRA Factor from the currently approved CCRA Factor amount of (.0337) to (.0599) in this general rate case rather than through a CIP tracker/DSM financial incentive docket.)

- As to the first resolved issue, Great Plains proposed to include in its 2020 test year $566,621 in CIP expense, which is the same amount as its 2018 actual CIP expense.[54]

- In her review, Ms. Byrne observed that Great Plains' past CIP status reports[55] showed that the Company typically spent less than its authorized CIP budget, as shown in Table 5.[56]

Table 5: Great Plains' CIP Budgets and Expenditures

Year	Approved Budget	Actual Spend
2013	$821,691	$378,794
2014	$827,718	$327,380
2015	$1,012,597	$724,644
2016	$832,597	$642,143
2017	$885,396	$403,118
2018	$887,408	$566,621
2019	$902,858	

- The Department concluded that the Company's proposal of $566,621 was reasonable to include in the 2020 test-year expenses, since that amount reflects actual 2018 CIP expenditures, but it would be unreasonable to include in the test-year expenses expenditures that Great Plains did not expect to incur.[57]

- Turning to the second issue, Great Plains' Initial Filing proposed not only to update the CCRC in this rate case, but also to change the CCRA factor in this rate case, so that the CCRC and the CCRA factor, combined, would recover the same amount that the CCRC and the CCRA factor, combined, were recovering prior to this rate case.[58]

- The Department said that Great Plains' proposal was not reasonable because, when calculating the CCRA Factor each year, Commission practice requires a "thorough

[54] Ex. GP-2 (Initial Filing, Vol. III, Statement C, Schedule C-2, page 17 of 27) (Sept. 27, 2019); Ex. GP-21 at 20 (Jacobson Direct); Ex. DER-6 at 13 (Byrne Direct) (Mr. Jacobson explained that "Schedule C-2, page 17 shows the base level of Conservation Improvement Program (CIP) expense that Great Plains has included in its distribution margin. Great Plains used the actual expense of $566,621 for 2019 and 2020 as included in Great Plains' annual Status Report in Docket No. G004/CIP-19-287. Great Plains used actual expenses, instead of the budget, because of the extension of the new CIP portfolio to 2021. Any differences from the base will be returned to or collected from customers through the CCRA.").
[55] Docket Nos. G004/CIP-12-573.01, G004/CIP-12-573.02, G004/CIP-12-573.03, G004/CIP-12-573.04, G004/CIP-16-121.01, G004/CIP-16-121.02.
[56] Ex. DER-6 at 14 (Byrne Direct).
[57] *Id.*
[58] Ex. GP-31 at 12 (Bosch Direct); Ex. DER-6 at 14 (Byrne Direct).

review" of the Company's current CIP tracker[59] balance,[60] but Great Plains provided no information about the CIP tracker balance to support its proposed change to the CCRA Factor.[61] Updating the CCRA Factor at the time the CCRC is updated in a rate case may be reasonable, but the method the Company proposed in this case was not reasonable because it was not based on an assessment of the current CIP tracker balance.[62] The Department recommended that the Commission approve Great Plains' proposed CCRC, but deny the Company's request to update the CCRA Factor in this proceeding.[63]

- Great Plains agreed with the Department's recommendation. Company witness Ms. Bosch said "Great Plains does agree that the CCRA should be updated in its next tracker filing to better match the actual CIP expenditures, financial incentives, carrying charges, and adjustments that may occur over the period the CCRA is in place…. Great Plains next CIP tracker filing will be filed no later than May 1, 2020."[64]

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[59] The CIP cost tracker records revenues collected through the CCRC and the CCRA Factor, actual CIP expenditures, Commission-approved financial incentives (financial "rewards" to utilities as an incentive to achieve certain levels of energy savings), carrying charges, and any adjustments that may occur over the period the CCRA is in place. Ex. DER-6 at 15 (Byrne Direct).

[60] Ex. DER-6 at 16 (Byrne Direct) (*citing In the Matter of Great Plains Natural Gas Co.'s 2015 Demand-Side Management Financial Incentive and Annual Filing to Update the CIP Rider*, Docket No. G004/M-16-384, ORDER APPROVING TRACKER ACCOUNT, APPROVING FINANCIAL INCENTIVE, SETTING CARRYING-CHARGE RATE, AND SETTING CONSERVATION COST RECOVERY ADJUSTMENT at 4, fn.5 (Nov. 23, 2016)) (The Commission determined that, "The Department also claimed that Great Plains had been charging a CCRA not approved by the Commission. Great Plains disagreed, stating that its current -$0.0079/Dth CCRA was part of the interim tariffs approved by the Commission in the Company's recent rate case. However, the Commission clarifies that the CCRA *should be adjusted only after a thorough review of Great Plains' CIP tracker.*") (emphasis added).

[61] Ex. DER-6 at 15 (Byrne Direct).

[62] Moreover, Great Plains' CCRA Factor did not change with implementation of interim rates, as proposed. Great Plains' December 2, 2019 Interim Rates Compliance Filing in this case did not include the Conservation Improvement Program Adjustment Clause tariff, Sheet No. 5-111, that would state the current CCRC and CCRA Factor. Ex. DER-6 at 16 (Byrne Direct).

[63] Ex. DER-6 at 16 (Byrne Direct) (Under this recommendation, the Commission would consider any update to the CCRA Factor that may subsequently be needed in the Company's upcoming annual CIP tracker and financial incentive filing to be submitted by May 1, 2020); Ex. DER-14 at 4 (Byrne Surrebuttal); Ex. DER-21 (Byrne Summary).

[64] Ex. GP-32 at 2-3 (Bosch Rebuttal).

D. Continuation of the Gas Utility Infrastructure Cost (GUIC) Rider

Resolved between DER and Great Plains: DER did not have a recommendation on the GUIC rider. The Company's actions, and explanation of intentions regarding its GUIC rider, align with DER's understanding of how the rider should interact with Great Plains' rate case. Ex. DER-6 at 17-19 (Byrne Direct); Ex. DER-14 at 5-6 (Byrne Surrebuttal); Ex. DER-21 (Byrne Summary).

- The Great Plains' Initial Filing proposed to include in base rates the costs associated with the assets currently being recovered in its approved GUIC rider adjustment factors established in MPUC Docket No. G-004/M-18-282.[65] Great Plains also requested that the Commission approve the 2019 projects it had submitted in Docket No. 19-273[66] and allow the Company to suspend the GUIC rider rate upon the implementation of interim rates, because the Company had included those same 2019 projects in the rate base in this rate case.[67]

- The Commission's NOTICE OF AND ORDER FOR HEARING required that parties develop a record regarding two questions: (1) what is the impact of suspending the GUIC rider; and (2) did the Company intend to continue use of the GUIC rider subsequent to the rate case.[68]

- As to the first of the Commission's questions, the impact of suspending the GUIC rider during the rate case, Great Plains initially planned to continue its GUIC rider during its rate case and incorporate the revenue requirement from rider-eligible assets at the end of the rate case. However, upon requests from Department analysts, the Company agreed to roll its rider revenue requirements into its rate case at the beginning of its test year.

- Whether a utility incorporates its rider-eligible revenue requirements at the beginning or at the end of its test year ultimately has the same financial effect. However, rolling the rider revenue requirements in at the beginning of the test year (and suspending the rider) leaves less opportunity for double-recovery by eliminating the need for a corresponding adjustment in the interim rate refund calculation.[69]

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[65] *Great Plains Natural Gas Co. (Great Plains), a Division of Montana-Dakota Utilities Co., Annual Report and Petition for approval of recovery of updated Gas Utility Infrastructure Costs (GUIC) under its GUIC Adjustment Tariff for 2018*, MPUC Docket No. G004/M-18-282.

[66] *Great Plains Natural Gas Co. (Great Plains), a Division of Montana-Dakota Utilities Co., Annual Report and Petition for approval of recovery of updated Gas Utility Infrastructure Costs (GUIC) under its GUIC Adjustment Tariff for 2019*, MPUC Docket No. G004/M-19-273.

[67] Ex. GP-21 at 5 (Jacobson Direct).

[68] NOTICE OF AND ORDER FOR HEARING at 2 (Nov 22, 2019).

[69] Ex. DER-6 at 18 (Byrne Direct).

- As to the second of the Commission's questions, whether Great Plains intends to use the GUIC rider subsequent to the rate case, the Company's response to Department IR No. 102 indicated that it planned to continue to utilize the GUIC rider subsequent to the rate case.[70]

- The Department concluded that the Company's actions, and its explanation of intentions regarding its GUIC rider, align with the Department's understanding of how the GUIC rider should interact with Great Plains' rate case.[71]

E. Rate Base--2020 Beginning Balance for Calculating Average Rate Base

Resolved between DER and Great Plains: Great Plains agreed to DER's recommendation that the Company's 2020 test-year average rate base should be calculated by using Great Plains' 2020 beginning rate base balance (reflecting actual 2019 ending balance) and the projected 2020 additions Great Plains proposed in its initial case. Ex. GP-2, Statement B - Rate Base; Ex. GP-21 at 8-10 (Jacobson Direct); Ex. GP-23 at 4-5 (Jacobson Rebuttal); Ex. GP-24 (Jacobson Summary); Ex. DER-6 at 17 (Byrne Direct); Ex. DER-14 at 10-13, ACB-S-2 (Byrne Surrebuttal); Ex. DER-21 (Byrne Summary); Ex. DER-15 at 2, DVL-S-3, DVL-S-4, DVL-S-8, column (c) (Lusti Surrebuttal).

- Test-year rate base is a projection consisting of the average of the 2020 projected beginning and ending rate base balances. The timing and schedule for this case allowed Great Plains to update the 2020 beginning balance to reflect the 2019 actual ending balance.

- The Department recommended that the revenue requirement approved in this proceeding be based on Great Plains' update of its 2020 beginning rate base balance to the actual amount, and that the Company's projected 2020 additions be held at the level the Company proposed in its initial case, in the amount of $4,645,785.[72]

- The Department recommended that the Commission should approve the Company's 2020 test-year average rate base that reflects the 2020 beginning rate base balance (reflecting the actual 2019 amount) and the projected 2020 additions at the level Great Plains proposed in its initial case.[73]

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[70] Ex. DER-6 at 18-19, ACB-6 (Byrne Direct) (The response to IR No. 102 stated: "The Company plans to file an update in the Spring of 2020 that will focus on the true up of the over- or under-recovery in the rider's tracker balance as of December 31, 2019. The Company also plans to continue to utilize the GUIC rider for future recovery of GUIC-eligible projects beginning in 2021.")
[71] *Id.* at 19 (Byrne Direct).
[72] *Id.* at ACB-S-1 (Byrne Surrebuttal).
[73] Ex. DER-14 at 15 (Byrne Surrebuttal).

- Great Plains agreed to these recommendations.[74] This adjustment for the 2019 year-end update resulted in an increase to the test-year rate base by $930,854.[75]

F. Cash Working Capital

Resolved between DER and Great Plains: The Company did not include cash working capital in its test-year rate base, and the Department did not recommended that a cash working capital component be calculated. Ex. DER-7 at 7 (Lusti Direct).

- Great Plains did not calculate a cash working capital component. Although most investor-owned utilities perform a lead/lag study to calculate a cash working capital component of their rate base, Great Plains historically has not performed such a study. Thus, the Company did not include cash working capital in its test-year rate base.

- The Department concluded that there was no need for the Company to be required to perform such a study for the purposes of this rate case.[76]

G. Bonus Expense

Resolved between DER and Great Plains: The Department agreed that the $9,509 proposed by the Company for bonuses is reasonable. Ex. GP-2, Vol. III, Statement C, Schedule C-2, Page 10 of 27; Ex. DER-7 at 12-13, DVL-9 (Lusti Direct).

- The amount of bonuses and commissions Great Plains included in its test year expenses was $9,509.[77]

- The Department agreed with the Company that $9,509 was a reasonable amount of bonuses and commissions to include in the test year expenses because the costs included were sign-on and relocation bonuses, referral awards, retirement awards, and service awards,[78] but not long-term incentive compensation.[79]

H. Interest Expense Synchronization

Resolved between DER and Great Plains: The Company calculated its interest-expense deduction for test-year income tax purposes by multiplying its rate base by the weighted cost of long-term and short-term debt, which is 2.277 percent. The Department agreed with this methodology. Ex. GP-2, Statement C - Operating

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[74] *Id.* at 10-13, ACB-S-1 (Byrne Surrebuttal); Ex. DER-21 (Byrne Summary).
[75] Ex. DER-15 at 2, DVL-S-8, column (c) (Lusti Surrebuttal).
[76] Ex. DER-7 at 7 (Lusti Direct).
[77] Ex. GP-2, Vol. III, Statement C, Schedule C-2, Page 10 of 27; Ex. DER-7 at 12 (Lusti Direct).
[78] Ex. DER-7, DVL-9 (Lusti Direct); (Great Plains' Response to Department IR No. 117).
[79] *Id.* at 13 (Lusti Direct).

Income, Schedule C-5, Page 2 of 5; Ex. GP-21 at 25 (Jacobson Direct); Ex. DER-7 at 15 (Lusti Direct); Ex. DER-15 at 8, DVL-S-7 (Lusti Surrebuttal).

- Great Plains calculated its interest-expense deduction for test-year income tax purposes by multiplying its rate base by the weighted cost of long-term and short-term debt, which is 2.277 percent.

- The Department agreed with this calculation method.[80] The Department's adjustment for interest synchronization was set out in an attachment to Mr. Lusti's Surrebuttal Testimony[81] that detailed the calculation of the Department's adjustment to the test-year federal and state income tax, which resulted in a $6,092 decrease to the test-year income tax.[82]

5. CAPITAL STRUCTURE

Equity to Debt Ratio
<u>Resolved</u> between DER and Great Plains: The Department and Great Plains agreed that a capital structure comprised of 50.815 percent equity, 45.132 percent long-term debt, and 4.053 percent short-term debt is reasonable.[83]

Cost of Debt
<u>Resolved</u> between DER and Great Plains: The Department and Great Plains agreed that it is reasonable for the capital structure to include costs of short- and long-term debt of 3.693 percent and 4.712 percent, respectively.[84]

Return on Equity ("ROE")
<u>Disputed</u> between DER and Great Plains: DER recommended an ROE of 8.82 percent.[85] Great Plains recommended an ROE of 10.20 percent.[86]

Flotation Costs
<u>Disputed</u> between DER and Great Plains: Great Plains proposed a flotation cost adjustment of 0.10 percent (ten basis points).[87] DER recommended a flotation cost adjustment of 0.05 percent (five basis points).[88]

Elimination of Preferred Stock

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80 *Id.* at 15 (Lusti Direct).
81 Ex. DER-15 at DVL-S-7 (Lusti Surrebuttal).
82 Ex. DER-15 at 8 (Lusti Surrebuttal).
83 Ex. DER-9 at 2 (Addonizio Surrebuttal); Ex. GP-16 at 17 (Bulkley Rebuttal).
84 Ex. DER-9 at 2 (Addonizio Surrebuttal); Ex. GP-16 at 17 (Bulkley Rebuttal).
85 Ex. DER-9 at 4 (Addonizio Surrebuttal).
86 Ex. GP-16 at 8 (Bulkley Rebuttal).
87 Ex. GP-14, AEB-2, Schedule 4 (Bulkley Direct).
88 Ex. DER-1 at 32 (Addonizio Direct).

<u>Resolved</u> between DER and Great Plains: The Department and Great Plains agreed that the Company's decision to eliminate preferred stock from its capital structure was reasonable.[89]

The OAG did not take a position on Capital Structure in this proceeding.

A. Equity to Debt Ratio

- The term "capital structure" refers to the combination of short-term debt, long-term debt, and equity that a company uses to finance its activities. The ratio between debt and equity that a rate-regulated utility chooses will affect its overall rate of return.[90]

- Great Plains proposed to establish a capital structure consisting of 50.815 percent common equity, 4.053 percent short-term debt, and 45.132 percent long-term debt.[91] The Company considered the mean proportions of common equity, preferred equity, short-term debt, and long-term debt for the most recent year for each of the companies in its proxy group to develop a reasonable capital structure.[92] Great Plains also considered credit rating agency expectations in developing its proposal.[93]

- The Department concluded that Great Plains' proposed equity ratio was reasonable because it was almost equal to the DER Proxy Group's average and its short- and long-term debt ratios were within the ranges of the DER Proxy Group.[94]

B. Short- and Long-Term Debt Costs

- Great Plains proposed a short-term debt cost of 3.693 percent, including expense associated with the amortization of fees related to its revolving credit facility.[95] The Company proposed a long-term debt cost of 4.712 percent.[96]

- The Department concluded that the Company's proposed costs of short-term cost of debt and long-term cost of debt were reasonable. The Department further noted that Great Plains' proposed cost of long-term debt reflected the issuance of $275 million in new long-term debt in late 2019 and 2020.[97]

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[89] Ex. GP-12 at 5-6 (Nygard Direct); Ex. DER-1 at 41-42 (Addonizio Direct); Ex. GP-2, Statement B-3 at 7 (Statement B – Rate Base – Preferred Stock Redemption).
[90] Ex. DER-1 at 38 (Addonizio Direct).
[91] Ex. GP-14 at 107 (Bulkley Direct).
[92] *Id.*
[93] *Id.* at 108.
[94] Ex. DER-1 at 40-41 (Addonizio Direct).
[95] Ex. GP-2, Statement D-2 at 1 (Statement D – Rate of Return – Cost of Capital).
[96] Ex. GP-2, Statement D-1 at 1 (Statement D – Rate of Return – Cost of Capital).
[97] Ex. DER-1 at 42-43 (Addonizio Direct).

C. Return on Equity

[PLACEHOLDER FOR DISPUTED ISSUE OF RETURN ON EQUITY]

D. Flotation Costs

[PLACEHOLDER FOR DISPUTED ISSUE OF FLOTATION COSTS]

E. Elimination of Preferred Stock

- The Commission's NOTICE OF AND ORDER FOR HEARING directed the parties to address Great Plains' preferred stock redemption.[98] The Company stated that all outstanding preferred stock was redeemed on April 1, 2017. Great Plains indicated that preferred stock comprised approximately 0.6 percent of the Company's average capital structure in 2017. Great Plains explained that replacing preferred stock with a long-term debt issuance reduced its financing costs. The Company stated that the preferred stock had dividend rates of 4.5 percent and 4.7 percent, while the long-term debt issuance has an interest rate of 3.36 percent.[99]

- The Department concluded that Great Plains' decision to redeem the preferred stock was reasonable for two reasons. First, only two companies in the DER Proxy Group included preferred stock and only in small amounts. Second, Great Plains' assertion that redemption of the preferred stock reduced its financing costs was supported by the Company's preferred stock redemption net present value analysis.[100]

6. SALES FORECAST

<u>Resolved</u> between DER and Great Plains: The Department and the Company agree that the Commission should adopt Great Plains' test-year sales forecast filed in this proceeding. Great Plains agreed to retain customer data for future rate cases. The Company agreed that it will comply with paragraphs 16a through 16g of the Great Plains 2015 RATE CASE ORDER in its future rate case applications. Ex. GP-18 (Shoemake Direct); Ex. GP-19 (Shoemake Rebuttal); Ex. GP-20 (Shoemake Summary); Ex. DER-2 (Shah Direct); Ex. DER-10 (Shah Surrebuttal); Ex. DER-17 (Shah Summary).

The OAG did not take a position on Sales Forecast in this proceeding.

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[98] *In the Matter of the Petition by Great Plain Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Authority to Increase Natural Gas Rates in Minnesota*, MPUC Docket No. G-004/GR-19-511, OAH Docket No. 65-2500-36528, NOTICE OF AND ORDER FOR HEARING at 2 (Nov. 22, 2019).
[99] Ex. GP-12 at 5-6 (Nygard Direct).
[100] Ex. DER-1 at 41-42 (Addonizio Direct); Ex. GP-2, Statement B-3 at 7 (Statement B – Rate Base – Preferred Stock Redemption).

A. Forecast-Introduction

- A "test year" is the 12-month period selected by the utility for the purpose of expressing its need for a change in rates.[101] In designing rates, test-year sales volumes are used to allocate costs in the Class Cost of Service Study (CCOSS), which is then used as a benchmark comparison to establish the revenue apportionment. When establishing final rates, the test-year sales volumes are used to determine the overall revenue requirements, as well as the individual tariff rates.[102]

- Department witness, Mr. Shah, analyzed the Company's forecast and concluded that, generally, Great Plains' regression models and sales forecasts are reasonable and he recommended no adjustments to Great Plains proposed revenues.[103]

B. Great Plains' Forecast

- Great Plains proposed a forecasted calendar year 2020 test year.[104] To assess whether there was a need to adjust sales, Mr. Shah reviewed whether the forecast was based on "normal" conditions, with adjustments made for known and measurable changes. He explained that, at a minimum, to construct a reasonable forecast, the historical sales level should be adjusted to reflect sales that would occur under "normal" weather, since weather is typically the most significant factor affecting at least some rate classes.[105]

- Mr. Shah also explained the compliance requirement resulting from ordering paragraph 16a through 16g of Great Plains' last rate case,[106] with which the Company indicated it had complied.[107]

- Great Plains divided its customers into eight customer classes: Residential, Small Firm, Large Firm, Small Interruptible, Large Interruptible, Large Transportation, Small Transportation, and Grain Dryers.[108]

- Mr. Shah stated that Great Plains forecasted test-year sales in the same manner as it did in its previous rate case (Ordinary Least Squares (OLS) regression analyses and

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[101] Minn. R. 7825.3100, subp. 17.
[102] *Id.* at 2-3.
[103] *Id.* at 3.
[104] Ex. GP 18, MTS-1 at 1-2 (Shoemake Direct); Ex. DER-2 at 4 (Shah Direct).
[105] Ex. DER-2 at 4 (Shah Direct).
[106] GREAT PLAINS 2015 RATE CASE ORDER at 51-52.
[107] Ex. GP-18 at 2-5 (Shoemake Direct); Ex. DER-2 at 5-6 (Shah Direct).
[108] Ex. GP-18 at 9-19, MTS-1 at 1-2 (Shoemake Direct); Ex. GP-3 (Work papers, Statement C, Schedule C-1, pages 1-99) (September 27, 2019); Ex. DER-2 at 6 (Shah Direct).

averages to estimate test-year sales) with input changes that were improvements over the data used in Great Plains' last rate case.[109]

- He reviewed the source of the weather data Great Plains used to normalize sales in this rate case, as well as Great Plains' method for collecting and constructing the weighted weather data and whether the method used was reasonable. Mr. Shah concluded that Great Plains' method was appropriate since it attempted to match sales to weather data.[110]

- Mr. Shah assessed how Great Plains calculated the normal weather data that it used in its forecasted test year, and had no concerns regarding Great Plains' use of the weather data because, although the Company's methodology changed from the last rate case with respect to the years used in its calculations, the Commission, in a relatively recent 2019 order, accepted use of 30-year weather data.[111]

- Mr. Shah explained that Great Plains' test-year sales forecast is the aggregate of several models for forecasting sales and the number of customers for its customer classes, and that summing these total sales for all rate classes yields the total sales for the Company.[112] He assessed how heat-sensitive test-year sales were estimated by Great Plains and how the normalized volumes were calculated for heat-sensitive customers, noting that the raw data was accumulated in Excel files that were then processed through analytical software referred to as Stata.[113]

- Mr. Shah discussed the model specifications and methods used to estimate the residential, small firm, large firm, and other heat-sensitive customer class models and he concluded, regarding the general model specifications, that the transformations were reasonable, given the facts in this proceeding.[114]

- Mr. Shah explained how Great Plains estimated 2020 test-year sales for each firm rate class and each heat-sensitive interruptible and transportation customer and each non-heat-sensitive interruptible and transportation customer.[115]

- After reviewing Great Plains' process to calculate input data and forecasting techniques and models, the Department had no major concerns with the Company's sales forecast approach and accompanying results.[116]

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[109] Ex. GP-18 at 5-19 (Shoemake Direct); Ex. DER-2 at 7 (Shah Direct).
[110] Ex. GP-18 at 5-8 (Shoemake Direct); Ex. DER-2 at 7-9 (Shah Direct).
[111] Ex. DER-2 at 9 (Shah Direct).
[112] *Id.* at 10.
[113] Ex. DER-2, SS-2 (Shah Direct); Ex. DER-2 at 10-11 (Shah Direct).
[114] Ex.GP-18 at 12-14 (Shoemake Direct); Ex. DER-2 at 11-12 (Shah Direct).
[115] Ex. DER-2, at 12-13 (Shah Direct).
[116] *Id.* at 13. Mr. Shah did have one "minor concern" related to Great Plains' retention of customer data, discussed in section IV. 6. D. of this brief, below.

C. Continuation of the Requirements of the GREAT PLAINS 2015 RATE CASE ORDER, Paragraph 16a-16g

- Great Plains had compliance requirements from its last rate case related to sales volume forecasts. One such requirement required Great Plains to improve its forecast methodology in future rate filings by providing the certain information "to the extent practicable, or explaining why the information is not available," which information consisted of "raw sales, customer count, billing system, and weather data that is as up to date as possible and *that goes back at least 20 years*."[117]

- The Company's forecast in this instant case did not use information going back at least 20 years. Great Plains' witness Mr. Shoemake explained why it did not do so. He described the billing data he used in the weather normalization process, and discussed a Company history of changes in customer rate classes in 2004 and 2007.[118] Those changes resulted in, among other things, detailed billing data before 2007 that was not consistent with the currently effective rate structure, which, therefore, Great Plains did not use in the instant sales forecast. Mr. Shoemake explained that, for data prior to 2004, Great Plains would need to make assumptions about the historical billing in order to re-classify the data as residential or firm general service; and further, from 2004 through mid-2007, firm general service customers were all billed under the same rate classification, and assumptions would have to be made in order to re-classify the data for 2004 through mid-2007 as either small or large firm general service. Mr. Shoemake said that Great Plains did not utilize the data prior to 2007 to avoid making incorrect assumptions on any historical billing data not reflective of the Company's current rate structure. As a result, the Company included only 15 years of residential billing data and 11 years of firm general service billing data in its weather normalization process.[119]

- The Department requested the 2004 through 2007 data for the firm general classes by sending a series of IRs, however, Great Plains did not provide the requested data and instead provided further detailed reasons for its inability to provide data for the years prior to 2008.[120]

- The Department concluded that the Company complied with the Great Plains 2015 RATE CASE ORDER'S requirement by adequately "explaining why the information is not available."[121]

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[117] *Id.* at 13-14 (*citing* GP 2015 RATE CASE ORDER, Ordering Para. 16) (emphasis added).
[118] Ex. DER-2 at 14 (Shah Direct).
[119] Ex. GP-18 at 8-11 (Shoemake Direct); Ex. DER-2 at 14-16 (Shah Direct).
[120] Ex. DER-2 at 16-17, SS-3 (Shah Direct) (GP Responses to Department IRs Nos. 501-512).
[121] Ex. DER-2 at 17 (Shah Direct).

- In Mr. Shoemake's Rebuttal Testimony, the Company indicated that it will comply with paragraphs 16a through 16g of the GREAT PLAINS 2015 RATE CASE ORDER in its future rate case applications.[122]

D. Retention of Customer Data

- Mr. Shah recommended that the Company be required to retain customer data such that, in the event it proposes different rate structures in the future that would impact future customer data sets, past data would remain available. This would help ensure that Great Plains has the historical data needed to develop its forecasts in future rate cases.[123]

- Great Plains agreed to the Department's recommendation that the Company be required to retain customer data for future rate cases if there is a change in the rate structure.[124] The Company further agreed that the question, of whether it is reasonable for the Company to make assumptions about its data in future cases in the event Great Plains proposes a change in rate structures in the future, can be decided in those future cases, and need not be addressed in this docket.[125]

7. CLASS COST OF SERVICE

Resolved between DER and Great Plains: The Department and the Company agreed that it is not necessary for the Commission to approve any of the Class Cost of Service Studies (CCOSSs) that Great Plains sponsored in this rate case. The Company agreed with (1) the Department's recommendations regarding the classification and/or allocation methods of seven FERC accounts discussed in Section III of the Ouanes Surrebuttal Testimony, (2) the Department's recommendation to perform an improved minimum-size study, with the use, for each type and size of pipe, of unit replacement cost ($ per foot) of its installed distribution pipes, and the Company will file in its next general rate case a CCOSS reflecting these recommendations. Ex. GP-2 (Statement E -- Rate Structure and Design); Ex. GP-25 at 3-12 (Hatzenbuhler Direct); Ex. GP-26 at 13-19 (Hatzenbuhler Rebuttal); Ex. GP-27 (Hatzenbuhler Summary); Ex. DER-3 (Ouanes Direct); Ex. DER-11 (Ouanes Surrebuttal); Ex. DER-18 (Ouanes Summary).

The OAG did not take a position on Class Cost of Service in this proceeding.

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[122] Ex. GP-19 at 2 (Shoemake Rebuttal); Ex. DER-10 at 2 (Shah Surrebuttal).
[123] Ex. DER-2 at 18 (Shah Direct).
[124] Ex. DER-17 (Shah Summary).
[125] Ex. DER-10 at 4-8 (Shah Surrebuttal); Ex. DER-17 (Shah Summary).

A. CCOSS Objective and Characteristics

- The purpose of a CCOSS is to identify the responsibility of each customer class for each cost incurred by the utility in providing service. The CCOSS can then be used as one factor in determining how costs should be recovered from customer classes through rate design.[126] A CCOSS should reflect cost causality, which means that customer classes that impose costs on the system should be assigned their appropriate share of each cost.[127]

- There are three steps in performing a CCOSS. First, costs are functionalized, or grouped according to their purpose. Second, costs are classified into three basic categories: 1) customer costs, 2) energy or commodity costs, and 3) demand or capacity costs. Third, costs are allocated to the various customer classes.[128]

- Costs are typically functionalized by the Uniform System of Accounts as provided by the Federal Energy Regulatory Commission (FERC).[129] These accounts group costs into their various functions, such as production (costs associated with producing, purchasing, or manufacturing gas), storage (costs associated with storing gas normally during off-peak for use in times of cold weather), transportation (costs incurred in transporting gas from interstate pipelines to the distribution system), distribution (costs incurred to deliver the gas to the customers, such as gas distribution mains and meters) and other costs (costs that do not fit the above functions, such as general and administrative costs).[130]

- The functionalized costs are then classified[131] as customer, demand, or energy costs, according to how they are incurred:

    1. <u>Customer costs</u> are those operating and capital costs found to vary with the number of customers served rather than with the amount of utility service supplied. They include costs associated with "the theoretical distribution

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[126] Ex. DER-3 at 3 (Ouanes Direct).
[127] *Id.*
[128] *Id.* at 3-4, SO-3 at 1 (Ouanes Direct) (*Gas Distribution Rate Design Manual of the National Association of Regulatory Utility Commissioners* at 20, June 1989 (*Gas Manual*)).
[129] 18 C.F.R. 201 (Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act).
[130] Ex. DER-3 at 3, SO-3 at 1-3 (Ouanes Direct) (*Gas Manual* at 20-22).
[131] Functionalized costs that may not be readily categorized as customer, energy, or demand are generally classified and allocated on a composite basis of other cost categories. For example, administrative and general expenses may be classified and allocated on the same basis as the sum of the other operating and maintenance expenses, excluding the cost of gas. Ex. DER-3 at 4-5, SO-3 at 7 (Ouanes Direct) (*Gas Manual* at 26).

system that would be needed to serve customers at nominal or minimal load conditions."[132]

2. Demand or Capacity costs are those costs incurred to serve the peak demand on the system and do not directly vary with the number of customers or their annual usage. They include "the costs associated with distribution mains in excess of the minimum size [the theoretical distribution system that would be needed to serve customers at nominal or minimal load conditions]."[133]
3. Energy or Commodity costs consist of those costs that vary with the quantity of gas consumed.[134]

- The functionalized and classified costs are then allocated. They are usually allocated[135] to customer classes as follows:[136]

  1. Customer costs are allocated among the customer classes based on the number of customers in each class, typically weighted to reflect, for example, differences in metering costs among customer classes;
  2. Demand or Capacity costs are allocated among the customer classes based on the demand imposed on the system by each class during specific peak hours; and
  3. Energy or Commodity costs are allocated among the customer classes based on the energy the system must supply to serve the various customer classes.

- Each customer class's cost of service will depend not only on the CCOSS, but also on all the values of the exogenous variables of this mathematical model,[137] including but not

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[132] Ex. DER-3, SO-4 (Ouanes Direct) (January 1, 1987 *Gas Rate Fundamentals of the American Gas Association* at 136).
[133] Ex. DER-3, SO-3 at 4-5 (Ouanes Direct) (*Gas Manual* at 23-24).
[134] *Id.,* SO-3 at 4 (*Gas Manual* at 23).
[135] The functionalized and classified costs that may not be readily categorized as customer, energy, or demand are generally allocated on a composite basis of other cost categories. For example, administrative and general expenses may be allocated on the basis of the sum of the other operating and maintenance expenses, excluding the cost of gas. Ex. DER-3 at 6, SO-3 at 7 (Ouanes Direct) (*Gas Manual* at 26).
[136] Ex. DER-3 at 6 (Ouanes Direct).
[137] *Id*. at 7 (Dr. Ouanes explained that the CCOSS is a mathematical model consisting of two types of variables, endogenous and exogenous variables, and a set of equations (relationships between variables). Endogenous variables are the variables that are determined within the model. For example, the Residential class's revenue requirement (or cost of service) is an endogenous variable determined within the model, and its value becomes known only after running the CCOSS. Exogenous variables are the variables whose values come from outside of the model. For example, test year costs by FERC account, sales data, or the rate of return are exogenous variables because they are set outside of the CCOSS. The values of the endogenous variables are, by construction, dependent on the values of the exogenous variables and the specific relationships between variables included in the model.

limited to the sales forecasts. Each customer class's revenue requirement will depend not only on the Commission's decision on specific classification and allocation methods within the CCOSS, but also on the Commission's decisions on specific exogenous variables of the CCOSS, such as the amounts and items in the rate base, expenses, the rate of return, and sales forecast.[138] The Commission's decisions will be reflected in final rates.[139]

B. Great Plains' Embedded CCOSS

- As required by the GREAT PLAINS 2015 RATE CASE ORDER,[140] the Company filed three embedded cost studies: two Minimum System method CCOSSs, and the Basic Customer method CCOSS. Great Plains used the Basic Customer method CCOSS as the Company's starting point for its proposed rate design.[141] The Minimum System method CCOSS and the Basic Customer method CCOSS differ in the way they classify Distribution Mains, which are included in FERC Account No. 376. The Basic Customer method CCOSS classifies distribution mains as 100 percent demand-related costs,[142] unlike the Company's two Minimum System method CCOSSs, the "MS1 CCOSS" and the "MS2 CCOSS,"[143] in which the Company classified distribution mains between demand-related and customer-related costs, based on a minimum-size analysis.[144]

- Department witness Dr. Ouanes discussed the studies Great Plains used in this rate case to produce inputs to its proposed CCOSS. Although the studies were based on reasonably current data,[145] Great Plains' proposal misclassified or misallocated costs associated with the following FERC accounts:[146]

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[138] *Id*. at 7-8.
[139] *Id*. at 8 (referencing testimony of Mr. Michael Zajicek, Department witness on the topic of "rate design.")
[140] Ex. DER-3 at 9-10 (Ouanes Direct) (*citing* GREAT PLAINS 2015 RATE CASE ORDER at 36. (In the GREAT PLAINS 2015 RATE CASE ORDER, the Commission found no reliable CCOSS in the record, and decided to retain the Company's then-current class allocation, as recommended by the Department and the OAG. The Commission reasoned that it " previously found Great Plains' existing class revenue apportionment to be reasonable, and nothing in the current docket leads the Commission to reach a contrary conclusion. Consequently the Commission will retain the Company's current class allocation, as recommended by the Department and the OAG.").
[141] Ex. GP-25 at 11 (Hatzenbuhler Direct); Ex. DER-3 at 8 (Ouanes Direct).
[142] Ex. GP-2 at 24-53 of 61 (Vol. III -- Statement E -- Rate Structure and Design") (September 27, 2019) (Great Plains Statement E, Schedule E-2b), publ. at: Great Plains Proposed CCOSS; *see also* Ex. GP- 25 at 11 (Hatzenbuhler Direct).
[143] Ex. GP-2 at 20-54 and 63-97 of 105 ("Workpapers -- Statement E -- Rate Structure and Design") (September 27, 2019) (Great Plains Alternative E-2), publ. at: Great Plains Alternative CCOSSs; *see also* Ex. GP-25 at 9-11 (Hatzenbuhler Direct).
[144] Ex. DER-3 at 9 (Ouanes Direct).
[145] *Id*. at 10, SO-5.
[146] *Id*. at 10-11.

1) FERC Account No. 374, Land and Land Rights.
2) FERC Account No. 375, Structures and Improvements.
3) FERC Account No. 886, Maintenance of Structures and Improvements.
4) FERC Account No. 387, Other Equipment.
5) FERC Account No. 385, Industrial Measuring and Regulating Station Equipment.
6) FERC Account No. 890, Maintenance of Measuring and Regulating Station Equipment-Industrial.
7) FERC Account No. 876, Measuring and Regulating Station Expenses-Industrial.
8) FERC Account No. 892, Maintenance of Services.

- Dr. Ouanes' Direct Testimony discussed each of the FERC accounts that the Company had misclassified and misallocated in its initial filing.[147]

- In its Rebuttal Testimony, Great Plains stated that these accounts represented relatively small dollar amounts, when compared to the overall plant-in-service amount and overall distribution expenses, and showed that correcting the eight misclassifications and misallocations would have no effect on the results of the class study in the instant case.

- Great Plains agreed with the Department's recommended re-classifications and re-allocations and agreed with the Department's recommendation to incorporate the changes in its next general rate case.[148]

C. Classification Methods for Distribution Mains (FERC Account 376) in the Record

1. Background

- As to FERC Account No. 376, the Company proposed to classify all of its distribution mains as solely demand costs, which assumed that demand was the only factor that drives the utility's investment in distribution mains.

- The Department disagreed with this classification because not only demand, but also, the number of customers drives investment in distribution mains. Dr. Ouanes explained his analysis and conclusion that Great Plains' distribution mains should be classified as both demand and customer costs.[149] He described how the distribution system exists to serve its two functions: 1) being capable of delivering service to customers' residences or businesses (customer costs), and 2) ensuring that the distribution system is large enough to provide reliable service (demand costs).[150]

[147] *Id.* at 13-17.
[148] Ex. GP-26 at 17-18 (Hatzenbuhler Rebuttal); Ex. DER-11 at 1-3 (Ouanes Surrebuttal).
[149] Ex. DER-3 at 18 (Ouanes Direct).
[150] *Id.* at 19.

- In previous rate cases, Great Plains classified distribution mains as both demand and customer costs,[151] but in the instant case, Great Plains proposed to classify distribution mains as entirely demand costs due to data limitations. As its rationale, Great Plains in an earlier case stated:[152]

> Due to the data limitations previously discussed and the resulting inability to perform a minimum system study to the specifications set forth by the Commission, the Company opted to rely on the Basic Customer Method in its embedded class cost of service study. This was accomplished by utilizing a demand factor for the allocation of the distribution mains plant balance and utilizing a customer factor for only the services, meters, service regulators, and customer billing software rate base items.

2. Data Issues

- Minnesota gas utilities generally use historical records for their distribution system including the amount of pipe laid, the size of pipe (diameter), the type of pipe (plastic or steel) and the book cost per foot of pipe for each type. The utility then inflates the costs of these projects using the Handy-Whitman (HW) Index of Public Utility Construction Costs to normalize the cost data in terms of current replacement costs.[153] Because the construction period of the gas utilities' current distribution system covers several decades, equipment should be priced out at current replacement values to determine current unit replacement costs, not at original investment costs. This process provides for comparable current replacement investment values for each size and type of equipment.[154]

- Dr. Ouanes identified several concerns with Great Plains' implementation of its minimum-size studies, including the lack of disaggregated data to provide for a meaningful minimum-size study, that the Company's studies regrouped all pipes sized less than two inches together, the Company's failure to include the available supporting data, and that, in one or both studies, the customer component was calculated based on: (1) a limited portion of footage of mains instead of all installed distribution mains, and/or (2) book cost data instead of current unit replacement costs.[155]

- In his Direct Testimony, Dr. Ouanes recommended against approval of the two minimum-size methods initially filed by the Company. He recommended that Great Plains provide in its Rebuttal Testimony an improved minimum size CCOSS.[156] The Department requested that the Company file an improved minimum size method CCOSS,

[151] *Id.* at 22-23.
[152] *Id.* at 23.
[153] *Id.* at 28.
[154] *Id.*
[155] *Id.* at 30-32.
[156] *Id.* at 32-33.

by using for each pipe type and size a more reliable (potentially based on a supportable proxy) current unit replacement cost ($ per foot) of the installed distribution pipes.[157]

- Great Plains did not complete a revised minimum-size method in response to the Department's recommendation. Instead, Mr. Hatzenbuhler stated in Rebuttal Testimony that:[158]

> the class cost of service study serves as a guide in the revenue allocation and rate design process and is generally not adhered to absolutely. As has been discussed, the Basic Customer Method class study that was utilized is useful if the analyst recognizes the effects of classifying distribution mains as entirely demand related. Because the Company is not proposing to bring the classes to anywhere near even the knowingly conservative results of the Basic Customer Method class study, I don't feel introducing an additional class study would be beneficial. This is especially true considering Great Plains, the Department and the OAG all agree the Company's proposed revenue allocation is reasonable and should be adopted.[159] I appreciate Dr. Ouanes working with Great Plains to further understand the data limitations the Company faces when preparing minimum system studies and will take [sic] apply his suggestions when preparing the Company's next class study.

- Because of the Company's data limitations,[160] the Department concluded that there was no reasonably supported minimum-size study available in the record,[161] and, because all Basic Customer method CCOSSs, including the one Great Plains provided, classify

[157] Ex. DER-11 at 3-4 (Ouanes Surrebuttal).
[158] Ex. GP-26 at 18-19 (Hatzenbuhler Rebuttal); Ex. DER-11 at 4 (Ouanes Surrebuttal).
[159] Contrary to Mr. Hatzenbuhler's statement, the OAG did not take a position on Great Plains' proposed revenue allocation. *See* Ex. OAG-2 at 2 (Lebens Surrebuttal).
[160] The limitations appear to have precluded Great Plains from providing and supporting a reliable current unit replacement cost ($ per foot) of the installed distribution pipes.
[161] Ex. DER-11 at 5 (Ouanes Surrebuttal).

distribution mains as entirely demand-related,[162] use of the results would need to respect the bias inherent in those results.[163]

- The Department concluded that the Commission should not approve the Basic Customer method CCOSS,[164] nor the minimum-size methods and corresponding CCOSSs[165] in the record.

8. RATE DESIGN AND APPORTIONMENT OF REVENUE RESPONSIBILITY

Customer Service Extension Tariff

Resolved between DER and Great Plains: Great Plains and the Department agreed that the Company has generally applied its customer service extension tariff consistently and correctly.[166]

Rate Design Principles

[PLACEHOLDER FOR DISPUTED ISSUE OF PRINCIPLES OF RATE DESIGN]

Revenue Apportionment

Resolved between DER and Great Plains: Great Plains and the Department agreed that the Company's proposed changes to its revenue requirement apportionment based on its CCOSS and other ratemaking principles are reasonable.[167]

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[162] The classification of distribution mains as entirely demand-related results in costs being under-classified as customer-related and over-classified as demand-related. Moreover, according to the *Gas Rate Fundamentals* at 136, "fixed costs are usually assigned to the demand classification, except at the distribution level, where facilities are designed with the number and size of loads in mind." Ex. DER-3 at 25 (Ouanes Direct). Dr. Ouanes said he did not recommend approving the Basic Customer method CCOSS used by Great Plains because it relied on the incorrect assumption that demand is the only driver of Great Plains' investment in distribution mains, and therefore does not adequately reflect cost causation. Ex. DER-3 at 26 (Ouanes Direct).

[163] Ex. DER-3 at 25 (Ouanes Direct); Ex. DER-11 at 5-6 (Ouanes Surrebuttal) (In addition, Basic Customer method CCOSSs under-estimate costs to be assigned to the Residential class while over-estimating costs to be assigned to the other classes: the demand allocator used (allocator number 2) assigns a lower portion of costs to the Residential class and a higher portion of costs to the other classes when compared to the customer allocator used (allocator number 4).

[164] Ex. DER-3 at 17-26 (Ouanes Direct); Ex. DER-11 at 6 (Ouanes Surrebuttal).

[165] Ex. DER-3 at 30-32 (Ouanes Direct).

[166] Ex. GP-31 at 16-24 (Bosch Direct); Ex. DER-4 at 3-21 (Zajicek Direct).

[167] Ex. GP-25 at 17-18 (Hatzenbuhler Direct); Ex. DER-4 at 40-48 (Zajicek Direct).

Basic Customer Service Charge Increases

<u>Resolved</u> between DER and Great Plains: Great Plains and the Department agreed that the Company's proposed increases to the basic customer charges for the residential and general firm class customers were reasonable.
The OAG opposed increasing the Residential and Small-Business Basic Customer Service Charges.

Basic Customer Charge Calculation

[PLACEHOLDER FOR DISPUTED ISSUE OF RESIDENTIAL AND GENERAL FIRM CLASS CUSTOMER CHARGE APPLICATION METHOD]

Margin Sharing Proposal
<u>Resolved</u> between DER and Great Plains: Great Plains and the Department agreed that the Company's proposed margin sharing mechanism to mitigate the risk of a single large customer ceasing to take service was reasonable.[168] Great Plains and the Department also agreed that DER's recommended compliance filings and sunset clause were appropriate.[169]

New Grain Drying Class

<u>Resolved</u> between DER and Great Plains. Great Plains proposed a new rate applicable to grain drying to reflect the unique operating characteristics of such customers: Grain Drying Rate 73.[170] The Department does not oppose the new rate schedule.

A. Customer Service Extension Tariff

- The Commission's 90-563 ORDER directed the Department to evaluate Great Plains' customer service extension tariff in this rate case proceeding.[171] The Commission directed DER to consider six questions as part of this analysis,[172] for which the Department provides its conclusions below.

- First, the Department concluded that the Company's extension procedures struck an appropriate balance by allowing most new customers to obtain extensions needed for

[168] Ex. GP-25 at 14-15 (Hatzenbuhler Direct); Ex. DER-4 at 37-38 (Zajicek Direct).
[169] Ex. DER-4 at 38-40 (Zajicek Direct); Ex. GP-32 at 5 (Bosch Rebuttal).
[170] Ex. GP-31 at 8-9 (Bosch Direct).
[171] *In the Matter of an Inquiry into Competition Between Gas Utilities in Minnesota*, MPUC Docket No. G-999/CI-90-563, ORDER TERMINATING INVESTIGATION AND CLOSING DOCKET at 7 (90-563 ORDER) (Mar. 31, 1995).
[172] Ex. DER-4 at 7-8 (Zajicek Direct).

service at reasonable rates, while not requiring existing customers to pay for unusually long service extensions.[173]

- Second, the Department concluded that the Company's application of its Maximum Allowable Investment (MAI) policy to extension projects exceeding the free footage limit was reasonable.[174]

- Third, the Department concluded that the Company's preference for a free footage allowance as opposed to a per-customer dollar allowance was reasonable, even if other approaches might be more accurate, because the free footage allowance is based on typical construction circumstance, easier for customers to understand, and administratively efficient to administer.[175]

- Fourth, the Department concluded that Great Plains' extension charge refund policy was reasonable because it makes contributions for firm gas main extensions refundable for a period of up to five years as additional customers are connected to the main for which the advance was made.[176]

- Fifth, the Department concluded that Great Plains' policy of not allowing customers to install their own service lines either independently or with the use of private contractors was reasonable because the Company is responsible for the safe operation and maintenance of its service lines.[177]

- Sixth, the Department considered Great Plains' policy of not providing financing to customers responsible for a service extension cost contribution. The Company stated it does not offer financing because of the additional risk associated with providing it.[178] Mr. Zajicek concluded that Great Plains' policy was reasonable and that private financing, such as from a bank, would still be available to customers.[179]

- The 90-563 ORDER also directs DER to address three additional concerns related to Great Plains' application of its service extension tariff, for which the Department's conclusions follow. First, the Department concluded that Great Plains correctly applied its customer service extensions between 2015 and 2018.[180] Second, the Department concluded that Great Plains' main and service line extensions are appropriately cost and load justified.[181]

[173] Ex. DER-4 at 10-12 (Zajicek Direct).
[174] Ex. DER-4 at 12 (Zajicek Direct).
[175] Ex. DER-4 at 13-14 (Zajicek Direct).
[176] Ex. DER-4 at 14-15 (Zajicek Direct).
[177] Ex. DER-4 at 15-16 (Zajicek Direct).
[178] Ex. GP-31 at 19-20 (Bosch Direct).
[179] Ex. DER-4 at 17 (Zajicek Direct).
[180] Ex. DER-4 at 17-18 (Zajicek Direct).
[181] Ex. DER-4 at 19 (Zajicek Direct).

Third, the Department concluded that Great Plains' policies are ensuring that wasteful plant is not included in the Company's rate base.[182]

- Great Plains proposed two changes to its extension policies. First, the Company proposed to update the Levelized Annual Revenue Requirement (LARR) Factor to reflect changes to cost levels and capital structure that occur as a result of this proceeding. Second, Great Plains proposed to update its Maximum Allowable Investment (MAI) calculation to reflect revenue associated with its GUIC Rider adjustment and Margin Sharing Credit.[183]

- The Department concluded both proposals are reasonable as long as the LARR Factor and MAI calculation are updated to reflect the Commission's final decision relating to the Margin Sharing Credit and GUIC Rider revenues.[184]

B. Rate Design Principles

[PLACEHOLDER FOR DISPUTED ISSUE OF PRINCIPLES OF RATE DESIGN]

C. Revenue Apportionment

- Based on its Class Cost of Service Study (CCOSS), Great Plains proposed to change how its revenue requirement is apportioned among its various customer classes. In particular, the Company proposed the following changes:

Class	Proposed Increase
Residential:	$1,593,949
Small Firm:	$989,237
Large Firm:	$99,390
IT Grain Drying:	$45,302
Small IT Sales:	$18,419
Large IT Sales:	$5,743
Large IT Transport:	$108,799
Total:	$2,860,839[185]

- Great Plains reasoned that the above apportionment would facilitate several ratemaking goals including "fairness of the specific rates in the apportionment of the total costs of service among the different consumers[.]"[186]

[182] Ex. DER-4 at 19-20 (Zajicek Direct).
[183] Ex. GP-31 at 24 (Bosch Direct).
[184] Ex. DER-4 at 20-21 (Zajicek Direct).
[185] Ex. GP-2, Schedule E-1 at 1-4 (Hatzenbuhler Direct).
[186] Ex. GP-25 at 17-18 (Hatzenbuhler Direct).

- The Department concluded that Great Plains' proposed revenue responsibility apportionment was reasonable because it "moves the majority of classes closer to the cost based apportionment of revenue responsibility, while leaving the remaining classes very close to the status quo."[187]

- The Department further concluded that Great Plains' proposed revenue apportionment for interruptible customers was reasonable given that these customers have other fuel options available to them.[188]

D. Basic Customer Service Charges

- Customer bills generally contain two types of charges. A volumetric charge based on the amount of natural gas used by the customer during the billing period. The amount recovered through the volumetric charge fluctuates based on usage level. Customer bills also contain a basic customer service charge that remains the same month to month. The basic customer service charge is intended to recover the utility's fixed costs that arise from making service available such as connecting a residence or business to the gas distribution system.[189]

1. Residential and Firm Customer Basic Customer Charges

[PLACEHOLDER FOR DISPUTED ISSUE OF RESIDENTIAL AND GENERAL FIRM CLASS CUSTOMER CHARGE INCREASES]

2. Large Interruptible Transportation Class and Interruptible Grain Drying Class Basic Customer Charges

- Great Plains proposed to increase the Large Interruptible Transportation Service Rate basic customer service to $560 per month, amounting to an increase of $300 per month. The Company further proposed increasing the Interruptible Grain Drying Service Rate class's basic customer service charge by $350 to $450 per month.[190]

- The Department stated that the Large Interruptible Transportation class's customer charge and the Interruptible Grain Drying class's customer charge should both be set at $400 because these charges would more closely match the customer charges recommended by the CCOSS results.[191]

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[187] Ex. DER-4 at 42, 47 (Zajicek Direct).
[188] Ex. DER-4 at 46 (Zajicek Direct).
[189] Ex. DER-4 at 51-52 (Zajicek Direct).
[190] Ex. GP-25 at 19-20 (Hatzenbuhler Direct).
[191] Ex. DER-4 at 53 (Zajicek Direct).

- Great Plains accepted the Department's recommendation that the Interruptible Grain Drying Service Rate basic customer service charge be set at $400.[192] Great Plains also indicated that it does not oppose the Department's recommendation that the Commission set the Large Interruptible Transport class Basic Service Charge at $400.[193]

- Great Plains and the Department also agreed that if the Commission adopted the Department's recommendation for the Large Interruptible Transportation class, then the Large Interruptible Sales Service class should be similarly adjusted downwards to $355 in order to maintain the relationship between the Large Interruptible Sales class and the Large Interruptible Transport class.[194]

3. Basic Customer Charge Application Method Change

[PLACEHOLDER FOR DISPUTED ISSUE OF RESIDENTIAL AND GENERAL FIRM CLASS CUSTOMER CHARGE CALCULATION METHOD]

E. Margin Sharing Proposal

- The NOTICE OF AND ORDER FOR HEARING (Nov. 22, 2019) requested that the parties develop a record on whether the proposed margin sharing mechanism should be incorporated into the Revenue Decoupling Mechanism (RDM).

- Great Plains' proposed margin sharing arrangement is for a single large interruptible customer that represents a significant percentage of Great Plains' overall margin.[195]

- Great Plains' proposed margin sharing mechanism was developed by allocating the Company's revenue deficiency to the various customer classes with the resulting amounts allocated to the margin sharing customer set aside, and referred to as the "Target Margin Sharing Increase."[196] The Target Margin Sharing Increase was then allocated to the non-margin sharing customer classes. Finally, under the proposal, revenue would be collected from the margin sharing customer at the Large Interruptible Transport Class rate and credited back to the other customers.[197]

- Great Plains explained that the purpose of this mechanism is to avoid the need for an immediate rate case in the event that the margin sharing customer ceases to take service.[198] In the event that the margin sharing customer ceases service, the credit would

[192] Ex. GP-26 at 3 (Hatzenbuhler Rebuttal).
[193] Ex. GP-27 (Hatzenbuhler Testimony Summary).
[194] Ex. GP-26 at 4 (Hatzenbuhler Rebuttal); Ex. DER-12 at 6 (Zajicek Surrebuttal).
[195] Ex. GP-31 at 10-11 (Bosch Direct)
[196] Ex. GP-25 at 14-15 (Hatzenbuhler Direct).
[197] Ex. GP-25 at 15 (Hatzenbuhler Direct).
[198] Ex. GP-25 at 15 (Hatzenbuhler Direct).

noun longer be applied to the other customer bills. To implement the margin sharing proposal, the Company proposed that it be incorporated into its RDM.[199]

- The Department concluded that Great Plains' proposal was reasonable for several reasons. First, the proposal is symmetrical. In addition to bearing the risks, the other customers would enjoy a larger-than-proposed credit if the margin sharing customer increases usage above the level estimated in this proceeding.[200] Second, if the margin sharing customer does cease or reduce service, the margin sharing mechanism would allocate costs to other customers consistent with the rate design approved in this rate case.[201] Third, the proposal does not discriminate against other customer classes and could avoid the expenses of a rate case.[202]

- The Department recommended that the Commission require Great Plains to make an annual compliance filing and impose a sunset clause on the mechanism. The Department also recommended that Great Plains explain how the margin sharing mechanism would operate in the event the RDM did not continue beyond 2021.[203]

- Great Plains agreed to the Department's compliance filing and sunset clause recommendations.[204] The Company also explained how the margin sharing mechanism could operate in the RDM's absence and by what authority the Commission could approve it.[205]

F. New Grain Drying Rate

- Great Plains proposed a new rate applicable to grain drying to reflect the unique operating characteristics of such customers: Grain Drying Rate 73.[206]

- Great Plains explained that grain drying customers are unique in that a customer typically has a season of operation with a varying start and stop to that season, coupled with potential seasons requiring varying levels of gas in which to dry their product. This fluctuating start places an obligation on the grain drying customer to notify the Company prior to the start of its operations to ensure the Company is aware of the location of the facility, the expected hours of operation, and the customer's gas requirements.[207]
- The Department does not oppose the new rate schedule.[208]

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[199] Ex. GP-31 at 10-11 (Bosch Direct).
[200] Ex. DER-4 at 37 (Zajicek Direct).
[201] Ex. DER-4 at 37 (Zajicek Direct).
[202] Ex. DER-4 at 38 (Zajicek Direct).
[203] Ex. DER-4 at 38-40 (Zajicek Direct).
[204] Ex. GP-32 at 5 (Bosch Rebuttal).
[205] Ex. GP-32 at 5-9 (Bosch Rebuttal).
[206] Ex. GP-31 at 8-9 (Bosch Direct).
[207] Ex. GP-31 at 9 (Bosch Direct).
[208] Ex. DER-4 at 21-48 (Zajicek Direct).

9. **REVENUE DECOUPLING MECHANISM (RDM)**

RDM Extension

<u>Resolved</u> between DER and Great Plains: The Department and Great Plains agreed that the Commission should approve operation of the Company's revenue decoupling mechanism through December 31, 2021.[209]

Large Interruptible Customers

<u>Resolved</u> between DER and Great Plains: The Department and Great Plains agreed that the Commission should approve the Company's proposal to remove its large interruptible customers from its revenue decoupling mechanism, starting January 1, 2021.[210]

Minimum Energy Savings Threshold

<u>Resolved</u> between DER and Great Plains: The Department and Great Plains agreed that it is not necessary for the Commission to set a minimum energy savings threshold that the Company must meet before implementing its revenue decoupling mechanism surcharge.[211]

The OAG did not take a position on the Revenue Decoupling Mechanism in this proceeding.

A. Introduction

- Revenue decoupling is "a regulatory tool designed to separate a utility's revenue from changes in energy sales. The purpose of revenue decoupling is to reduce a utility's disincentive to promote energy efficiency."[212] An RDM allows the utility to recover differences between actual and forecasted base class revenue responsibility.[213]

- The Commission first approved Great Plains' RDM as a three-year pilot program in the Company's 2015 rate case.[214] The Company's RDM became effective on January 1, 2017. Without Commission action, Great Plains' RDM would have expired on

[209] Ex. DER-5 at 18 (Davis Direct); Ex. GP-26 at 9 (Hatzenbuhler Rebuttal).
[210] Ex. GP-25 at 25 (Hatzenbuhler Direct); Ex. DER-5 at 21 (Davis Direct); Ex. GP-26 at 11-12 (Hatzenbuhler Rebuttal).
[211] Ex. GP-25 at 27-28 (Hatzenbuhler Direct); Ex. DER-5 at 20 (Davis Direct); Ex. GP-29 at 3-4 (Fischer Rebuttal).
[212] Minn. Stat. § 216B.2412, subd. 2 (2018).
[213] Ex. DER-5 at 2 (Davis Direct).
[214] GREAT PLAINS 2015 RATE CASE ORDER at 40–43, 56.

December 31, 2020. However, the Company sought and obtained a one-year extension from the Commission.[215]

B. Revenue Decoupling Mechanism Extension

- Great Plains proposed to extend its RDM pilot program indefinitely. The Company reasoned that continuation of the RDM better aligned its business objectives with state conservation goals and customer preferences.[216]

- The Department evaluated Great Plains' proposal and concluded that any extension decision should be made after December 31, 2021, to allow an evaluation of the Company's 2019 and 2020 CIP achievements.[217]

C. Removal of the Large Interruptible Class

- Great Plains proposed to remove the Large Interruptible Rate Class from the RDM. The Company explained that it only has seven Large Interruptible Class customers and that a significant size disparity exists between the largest and smallest class members. As a result, if a larger class member were to cease service, the RDM would have an outsized impact on the remaining small class members.[218] Great Plains also proposed that these customers should be removed from the RDM beginning in 2021 because the RDM calculations would be reset at that time to reflect the updated authorized volumes and margin per customer for each of the customer classes resulting from the Commission's decision in the rate case.[219]

- The Department concluded Great Plains' proposal to remove Large Interruptible Class customers from the RDM was reasonable for three reasons. First, the Department consulted with a third-party expert who suggested a minimum threshold of ten customers. Second, the OAG similarly had proposed a minimum threshold of fifty customers in prior rate cases. Third, the Commission had imposed a fifty customer threshold in Minnesota Energy Resources Corporation's 2015 rate case.[220]

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[215] *In the Matter of the Request of Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc., for a One-Year Extension of Revenue Decoupling Pilot Program*, MPUC Docket No. G-004/M-19-198, ORDER at 1 (Jan. 13, 2020).
[216] Ex. GP-25 at 24 (Hatzenbuhler Direct).
[217] Ex. DER-5 at 18 (Davis Direct).
[218] Ex. GP-25 at 24-26 (Hatzenbuhler Direct).
[219] Ex. GP-26 at 11 (Hatzenbuhler Rebuttal).
[220] Ex. DER-5 at 21-22 (Davis Direct); *see also In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota*, MPUC Docket No. G-011/GR-15-736 (MERC 2015 Rate Case), FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 45 (Oct. 31, 2016).

D. Minimum Savings Threshold

- The Commission's NOTICE OF AND ORDER FOR HEARING directed the parties to consider whether a minimum energy savings level be required in order to implement a RDM surcharge.[221]

- Great Plains cited three reasons that RDM surcharges should not be directly connected to minimum energy savings. First, the Company suggested that its energy savings are affected by factors outside of its control.[222] Second, Great Plains believes that "[m]aking the end result, achievement of the goal, a prerequisite to being allowed to administer one of the tools put in place specifically to help achieve that goal is backwards."[223] Third, the Company believes the surcharge restriction penalizes Great Plains because the minimum savings threshold "only limits the ability to surcharge customers and not the ability to refund[.]"[224]

- The Department agreed with the Company's conclusion that it was not necessary for the Commission to impose a minimum energy savings threshold as this time. The Department reasoned the Commission will have an opportunity to consider the minimum savings issue again in 2021 when it determines whether to continue the RDM going forward. Additionally, the Department noted that the Commission had declined to impose minimum savings thresholds in past rate cases.[225]

- However, in the event the Commission chooses to implement a minimum savings threshold, the Department stated that a minimum savings threshold of 13,000 dekatherms would be reasonable because it is "4 percent lower than the lowest level of energy savings Great Plains achieved between 2013 and 2018."[226] Great Plains responded, "if a minimum energy-savings threshold were to be set prior to the Commission's evaluation of whether Great Plains' RDM should continue beyond 2021, it should be no more than 13,000 Dk for the reasons laid out by Mr. Davis."[227]

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221 NOTICE OF AND ORDER FOR HEARING at 2 (Nov. 22, 2019).
222 Ex. GP-25 at 27 (Hatzenbuhler Direct).
223 Ex. GP-26 at 12 (Hatzenbuhler Rebuttal).
224 Ex. GP-25 at 27 (Hatzenbuhler Direct).
225 Ex. DER-5 at 19-20 (Davis Direct).
226 Ex. DER-5 at 20 (Davis Direct).
227 Ex. GP-29 at 3-4 (Fischer Rebuttal).

CERTIFICATE OF SERVICE

Re: ***In the Matter of the Petition by Great Plains Natural Gas Company, a Division of Montana-Dakota Utilities, Co., for Authority to Increase Natural Gas Rates in Minnesota***
OAH Docket No. 65-2500-36528; MPUC Docket No. G004/GR-19-511

STATE OF MINNESOTA)
) ss.
COUNTY OF RAMSEY)

I, Liz Soderstrom, hereby state that on April 15, 2020, I filed by electronic eDockets the attached Joint Proposed Findings on Undisputed Issues, and eServed or sent by US Mail, as noted, to all parties on the attached service list.

See attached service list.

/s/ Liz Soderstrom
LIZ SODERSTROM

SERVICE LIST

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