BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Dan Lipschultz	Commissioner
Matthew Schuerger	Commissioner
Katie J. Sieben	Commissioner
John A. Tuma	Commissioner

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	ISSUE DATE: March 29, 2019 DOCKET NO. G-004/GR-15-879 ORDER APPROVING REFUND

PROCEDURAL HISTORY

On September 6, 2016, the Commission issued an order setting new rates for Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company).[1] Among other topics, the order authorized Great Plains to implement a three-year pilot program implementing revenue decoupling.

On December 3, 2018, the Minnesota Department of Commerce (Department) requested that the Commission direct Great Plains to show cause why the Commission should not take remedial actions related to the Company's failure in its last rate case to disclose a source of revenues from a new industrial customer.

By February 27, 2019, Great Plains and the Department had filed comments and replies.

On March 5, 2019, this matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. Summary of Commission Action

The Commission will direct Great Plains to refund $54,456 to ratepayers. The Company shall allocate the sum to each rate group in proportion to the group's revenue requirement established in the Company's rate case, and shall return the sums to ratepayers via the Company's Revenue Decoupling Mechanism.

And to avoid these problems in the future, the Commission will direct Great Plains to adopt some remedial procedures—and to continue working with the Department to identify more.

[1] Findings of Fact, Conclusions and Order (September 6, 2016).

II. Jurisdiction and Background

The Commission sets a regulated utility's rates to provide the utility with a fair opportunity to recover its costs and earn a fair rate of return on its investment.[2]

A natural gas distribution utility serves customers with a variety of characteristics, and charges different rates reflecting the costs of serving each group. Great Plains divides its customers into the following rate groups:

- Residential Sales Service
- Firm General Sales Service
- Small Interruptible Sales Service
- Large Interruptible Sales Service
- Small Interruptible Transportation Service
- Large Interruptible Transportation Service—Full Rate
- Large Interruptible Transportation Service—Flex Rate

In addition, since Great Plains acquired a second service area, it has divided each rate group into North and South.

Finally, Great Plains has implemented *revenue decoupling*. Revenue decoupling refers to a type of rate design that separates the utility's revenues from its energy sales, thereby reducing the utility's disincentive to promote energy efficiency.[3] In general, a decoupling plan entails calculating an amount of costs (other than the cost of the gas itself) to be recovered from each rate group each year, and then tracking the revenues generated by each group. Each year the utility reports, for each group, if the utility has over- or under-recovered its non-gas costs. If the utility over-collected, the utility calculates the appropriate adjustment to reduce the group's rates prospectively to refund the surplus; if the utility under-collected, it calculates the appropriate surcharge for recovering the shortfall. The Commission reviews these reports and calculations, and approves the rate adjustments to be implemented via a utility's Revenue Decoupling Mechanism.

III. Positions of the Parties

Great Plains acknowledges that it should have disclosed a revenue stream related to a new industrial customer. The Company claims that this failure arose from an inadvertent communications lapse between its regulatory affairs group (which prepares rate cases) and its operations group (which adds new customers).

As remedy, the Department and Great Plains agreed that the Company should reimburse ratepayers who have been harmed by this oversight by a net amount of $54,456 for the year 2016. (The oversight caused no harm in subsequent years, the parties concluded, because after the rate case the Company's new Revenue Decoupling Mechanism has made appropriate adjustments for the change in revenues.) The Department proposed allocating the refund among rate groups according to the class revenue apportionment used in the rate case, as set forth in

[2] *See generally* Minn. Stat. § 216B.16.

[3] Minn. Stat. § 216B.2412

Table 1:

Table 1: Refund Amount by Rate Group[4]

Rate Group	Rate Group Refund	Rate Class Refund
Residential		$26,130
North	$13,394	
South	$12,735	
Firm General Service		$16,226
North	$7,496	
South	$8,730	
Small Interruptible Service		$6,530
North	$3,239	
South	$3,291	
Large Interruptible		$2,205
North	$2,054	
South	$150	
Small Interruptible Transport		$494
North	$299	
South	$195	
Large Interruptible Transport		$2,873
North—Full Rate	$561	
North—Flex Rate	$0	
South—Full Rate	$2,312	
South—Flex Rate	$0	
Total	$54,456	$54,456

In addition, Great Plains agreed to work with the Department to adopt procedures to avoid this problem in the future. In the meantime, the parties agreed that Great Plains should do the following:

- Direct its regulatory affairs group to communicate with the operations group on the ground before and during any rate case.
- Require its regulatory affairs group to receive all new agreements for interruptible sales and transportation service, and agreements for nonresidential customer extensions, within 15 days of execution.
- During general rate cases, provide a monthly report to the Department on the number of customers and volume of gas delivered.

However, the parties did not achieve consensus on the appropriate mechanism for implementing the refund. Rather, they identified various options: Great Plains could provide the refund via its Revenue Decoupling Mechanism. It could incorporate the change into adjustments it is making

[4] Department Reply Comments, at 8 (January 18, 2019).

as a result of the recent changes to federal tax laws.[5] It could calculate and make a one-time bill credit for each affected ratepayer. Or Great Plains could treat the refund as a regulatory asset using deferred accounting, postponing the issue until the Company's next rate case.

IV. Commission Action

The Commission appreciates the parties' work to identify the source of the problem, remedies for the past harms, and procedures to avoid the problem in the future. Having reviewed the parties' joint recommendations, the Commission concurs with the calculation of the refund amount, the proposed allocation among rate groups, and the proposed changes to Great Plain's procedures. Accordingly, the Commission will adopt these remedies—and will not require Great Plains to show cause why the Commission should not impose additional remedies.

Finally, the Commission must choose among the mechanisms to implement the refund. Requiring a one-time refund would provide the quickest relief to ratepayers—but would impose administrative costs and burdens that would outweigh the benefit. In contrast, deferring the refund until Great Plain's next rate case would needlessly delay the remedy. Finally, given the complexity of the tax refund docket, the Commission prefers to preserve the simplicity and transparency of the tax refund mechanism—and will therefore refrain from using that mechanism for implementing the refund arising from this docket.

Given these considerations, the Commission elects to use Great Plain's Revenue Decoupling Mechanism as the vehicle to implement the refund. Consequently the Commission will direct Great Plains to amend its 2019 Revenue Decoupling Mechanism filing to incorporate the $54,456 refund arising from this docket.

The Commission will so order.

ORDER

1. Great Plains Natural Gas Company shall refund $54,456 to ratepayers using the revenue apportionment methodology proposed by the Minnesota Department of Commerce in Table 1.

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[5] *See* Docket E, G-999/CI-17-895, *In the Matter of a Commission Investigation into the Effects on Electric and Natural Gas Utility Rates and Services of the 2017 Federal Tax Act*.

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North—Full Rate	$561	
North—Flex Rate	$0	
South—Full Rate	$2,312	
South—Flex Rate	$0	
Total	$54,456	$54,456

2. Great Plains shall implement the refund as an amendment to its 2019 Revenue Decoupling Mechanism filing.

3. Great Plains shall continue to collaborate with the Department to assess internal controls and identify process improvements, and shall implement the following process improvements:

   A. Great Plains' regulatory affairs group shall communicate with the operations group before and during any rate case.

   B. Great Plains' regulatory affairs group shall receive all new customer agreements for interruptible sales and transportation service, and agreements for nonresidential customer extensions, within 15 days of execution.

C. During general rate cases, Great Plains shall provide a monthly report to the Department on the number of customers and volume of gas delivered.

4. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf
Executive Secretary

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