MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	March 5, 2019		Agenda Item 4*
Company	Great Plains Natural Gas Company		
Docket No.	**G-004/GR-15-879**		
	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		
Issues	What action should the Commission take regarding the Department of Commerce, Division of Energy Resources' request for the issuance of a show cause order?		
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✓ **Relevant Documents**	**Date**
Department of Commerce – Request for an Order that Great Plains Show Cause	December 3, 2018
Great Plains – Comments	January 8, 2019
Department of Commerce – Reply Comments	January 18, 2019
Great Plains – Response to Reply Comments	January 25, 2019
Department of Commerce – Letter	February 27, 2019

I. Statement of the Issues

What action should the Commission take regarding the Department of Commerce, Division of Energy Resources' request for the issuance of a show cause order?

II. Background

On September 30, 2015, Great Plains Natural Gas Co. (Great Plains, GP, or the Company) filed a General Rate Case, Docket G-004/GR-15-879. On September 6, 2016, the Minnesota Public Utilities Commission (PUC or the Commission) issued its Findings of Fact, Conclusions, and Order. On December 22, 2016, the Commission issued its Order Approving Final Revenue Apportionment and Rate Design, Updated Base Cost of Gas, and Interim Rate Refund Plan.

On December 3, 2018, the Department of Commerce, Division of Energy Resources, Energy Regulation and Planning Unit (the Department) requested that the Commission issue an order to show cause. This request was the result of the Department becoming aware of a large customer that started receiving service shortly after the Company filed its general rate case. The Department alleged that the Company failed to disclose this customer in any of its updated filings or written testimony and concluded that the resulting final rates from the rate case are unjust and unreasonable.

The Department became aware of the customer in question while reviewing GP's December 1, 2017 compliance filing on its Revenue Decoupling Mechanism (RDM).[1] The Department noted discrepancies in customer counts and the calculation of the RDM surcharge. After discussions with Great Plains, the Department stated in reply comments filed September 7, 2018 that the Company admitted it failed to disclose the customer.

On December 6, 2018, the PUC issued its Notice of Comment Period regarding the Department's request for a show cause order. On January 8, 2019, Great Plains submitted comments acknowledging its failure to disclose the customer and offered forward-looking solutions to prevent a similar occurrence in the future. Great Plains maintains that the omission was unintentional. The Department and Great Plains filed additional replies on January 18, 2019 and January 25, 2019, respectfully, largely in agreement to refund $54,457 to ratepayers and to implement various process improvements proposed by the Company. There were no public comments on the matter.

[1] Great Plains' General Rate Case, RDM compliance filings, and this matter are all filed under Great Plains' General Rate Case docket, Docket No. G-004/G-15-879.

III. Parties' Comments

A. Department of Commerce – Request to Show Cause

1. Great Plains submitted comments and written testimony in support of its September 30, 2015 filing which omitted a large customer.

The Department noted that this large customer began taking service on October 12, 2015. The Department believes the Company should have been aware that a large customer was coming on its system as of its September 30, 2015 rate case filing date. Because the customer represents approximately 22.5 percent of sales to customers in the Large Interruptible N82 & N85 rate group, the Company would have needed to conduct an analysis to ensure it could serve the new customer. Despite this, Great Plains filed reply comments on October 15 which did not acknowledge the large customer.[2]

> The Company attached to its October 15, 2015 filing a Supplemental Statement E, Schedule E-1 that, at p. 2 of 14, proposed for the class of "Large Interruptible General Gas Transportation N82" customers, a current revenue of $0.00, and proposed revenue of $0.00. Great Plains made no mention in its October 15, 2015 filing of the new large customer and, in omitting that important information, offered no information needed to comply with Minnesota Rule 7825.4100, subpart E, which requires utilities to file a "schedule summarizing the assumptions made and the approaches used in projecting each major element of operating income. Such assumptions and approaches shall be identified and quantified into two categories: known changes from the most recent fiscal year and projected changes." (Department emphasis added).

The Department believes the Company should have known by October 15, 2015 (if not sooner) that a new, large customer had started taking service. In addition to the filed comments, the Department noted that Great Plains did not disclose the presence of this new customer on its system during testimony, rebuttal testimony, through discovery, or during oral arguments.

2. The omission of the large customer may have had a significant impact on the rate case

There are two potentially significant areas in which the omission of a large customer can impact a rate case – the calculation of the revenue requirement and rate design. By not including all of its current sales under present rates, Great Plains overstated its revenue deficiency. Therefore, the rates in all rate classes were set higher than they should have been had the Company disclosed the large customer.

Additionally, the Department discussed how an omission of sales could disrupt revenue apportionment; if the Large Class N82 customer were properly included in the Company's rate case, more of the costs or service would have been allocated to that rate class, providing a

[2] Department request for Great Plains to Show Cause, Page 4

lesser rate for other rate classes. The Department also noted that there could have been impacts on the interim rates and interim rate refund.

3. Revenue Decoupling

The Department commented on the impacts of the misstated revenue requirement on the RDM.[3]

> Since the overstatement of the revenue requirement resulted in unreasonably high volumetric rates, the base revenues to set the revenue decoupling adjustment are incorrect. Using the updated rates calculated in Attachment 3,[4] the Department calculated a $1,591 increase in the overall revenue decoupling surcharge from $125,724 to $127,315, based on the Department's recommended January to December evaluation period, and a $163 decrease in the overall revenue decoupling surcharge from $324,998 to $324,835, based on Great Plains' recommended October to September evaluation period.
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> [Footnote related to Attachment 3 provided by Staff. Department footnotes omitted]

B. Great Plains - Comments

1. Recognition of Error

Great Plains acknowledged the omission and attributed the error to being the result of a "breakdown in communication between the field operations team on the ground in Minnesota and the regulatory affairs team administering the rate case from Bismarck, ND." Great Plains stated that much of the work in the2015 Rate Case was completed in the summer of 2015, well in advance of the rate case filing date of September 30, 2015 and the subsequent customer taking service the following month. The Company disclosed that preliminary discussions with the customer began in May 2013 but the extension project was not included in the 2015-2019 Capital Budget because the project remained uncertain. The customer executed an Extension Agreement in July 2015 and a Gas Transportation Agreement on September 29, 2015. The customer started taking service on October 12, 2015, receiving their first bill on November 3, 2015. GP stated that its regulatory affairs team was unaware of this customer at the time it had filed its rate case and had relied on the information in its initial filing during discovery and testimony.

Great Plains did note that the regulatory affairs team had access to internal revenue reports by customer classes.[5]

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[3] Id. at 11-12

[4] Department Request for Great Plains to Show Cause, Attachment 3

[5] Great Plains, Comments, Page 3

> While Great Plains' regulatory affairs team had access to internal revenue reports by customer classes on a monthly basis, the October 2015 report (available in early November 2015) following the rate case filing indicated no customer activity for the Rate N82 customer as the New Customer was first billed on November 3, 2015 for volumes used in October 2015 as the Company bills all interruptible service customers on a calendar month basis. The November 2015 report (available early December 2015) indicated only 2,382 dekatherms of sales for the Rate N82 class, which was not flagged by regulatory affairs staff as a noticeable change in volumes for November 2015. Subsequently, on December 14, 2015, the Department issued Information Request No. 508 seeking information regarding known and measurable changes that have occurred since the 2015 Rate Case filing. Because regulatory affairs staff was unaware of the New Customer, Great Plains responded there were no known or measurable changes.

Great Plains maintains that it became aware of the omission during communications with the Department subsequent to the 2018 RDM filing.

2. Rate Impacts and recommendation

Great Plains disagrees that the Commission should issue an order to show cause. The Company is concerned with the Commission reopening the rate case to address a single inadvertent issue that is over two years old. This adjustment would not consider any of Great Plains' under-recoveries during the same period. For instance, GP lost a Rate N85 customer in April, 2016 which resulted in a loss of $30,912 per year of projected non-gas annual revenue. Overall, the omission was immaterial to the overall rate case and, therefore, the resulting rates are just and reasonable.[6]

> …the Department's calculated 2016 revenue of $82,440 for the New Customer represents 0.36% of authorized 2016 sales revenue of $23,135,766.11. The 2016 volumes for the New Customer were 78,374 dekatherms, which represents 1.06% of authorized volumes of 7,389,898.12. Although the New Customer was not reflected in the 2015 Rate Case, the fact remains that a 1.1% difference in projected volumes and a 0.3 percent difference in projected revenue still results [in] a very accurate projection and just and reasonable rates

Great Plains also noted that the RDM resolves concerns of over-recovery for years 2017 and beyond.[7]

> …Great Plains' RDM report that was recently approved at the Commission's December 20, 2018 agenda meeting ensures that the revenue received from the New Customer is being returned to the Large Interruptible class through the RDM approved in the 2015 Rate Case for calendar years 2017 and forward…

[6] Great Plains, Comments, Page 6

[7] Id. at 5

The RDM does not account for the test-year, 2016. The Company agreed to work with the Department to identify and remedy the possible over-collection of revenues for 2016.

3. Process Improvements

Great Plains responded to the Department's request to discuss process improvements to prevent a similar error from occurring in the future. The Company commits to implementing the following internal procedures:

- Regulatory affairs group will communicate with the operations group on the ground before and during any rate case.
- All new interruptible sales and transportation service agreements and nonresidential customer extension agreements will be provided to the regulatory affairs group within 15 days of execution.
- Great Plains will provide actual customer and volume updates to the Department on a monthly basis during a general rate case.

The Company requests that the Commission accept its proposed financial solution and internal protocols and determine that a show cause order is unnecessary.

C. Department of Commerce – Reply Comments

The Department filed reply comments generally accepting Great Plains' explanation as to why the customer was omitted from test-year revenues. Although the Department accepts that the omission was unintentional, the Department maintains that improvements to internal controls are still necessary to avoid a similar recurrence in the future. The Department reviewed GP's proposed modifications and determined that if those procedures had been in place prior to the 2015 rate case, the Company would have noticed the new customer and properly included them in rates. The Department recommends GP incorporate these controls into its procedures, and to continue to work cooperatively with the Department to assess the effectiveness and identify opportunities for improvement of these controls.

The Department acknowledged the Company's concern about reopening the 2015 rate case to adjust a single issue without considering other issues, such as the customer that left the system during the rate case. The Department, however, disagreed with the Company about how the omission impacted the rate case.[8]

> …Although the $82,440 of revenue associated with the New Customer appears small, it is not. Great Plains attempted to minimize the impact of this New Customer by incorrectly comparing the $82,440 revenues for a transportation customer to total sales related revenues. Revenues from transportation customers are necessarily lower than for sales customers since sales customers do not require natural gas, whereas sales customers do expect the utility to acquire natural gas on their behalf. To measure the impact of the New Customer, it is

[8] Department of Commerce, Reply Comments, Page 5

> necessary to compare the $82,440 figure to the revenue deficiency of $1,141,376 approved by the Commission in its September 6 Order. When this comparison is used, the omission of the New Customer represents 7.22 percent of the approved revenue deficiency, which is clearly significant.

Nevertheless, the Department agrees that it is appropriate to consider the lost customer against the gained customer.[9]

> …the Old Customer had 2,100 Dkt of sales in 2016, which resulted in revenues of $2,929. When these actual revenues are netted against the normalized revenues of $30,912, the result is that the Company was unable to collect $27,983 in test-year sales associated with the Old Customer.
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> [footnote omitted]

When netted, the amount to refund to customers amounts to $54,457 for 2016. The Department agrees that the Company is generally correct that the RDM accounts for the effect on revenue for 2017-2019, and Great Plains has indicated its intent to file a rate case in 2019 which will correct the error in perpetuity. Alternatively, if the Company does not file a rate case, the RDM could be extended to continue to account for the error.

D. Great Plains – Response to Reply Comments

Great Plains has agreed to refund $54,457 to its customers related to the 2016 period and to implement the process improvements stated in its comments (reproduced in these Staff Briefing Papers on pages 4-5).

IV. Staff Analysis

A. Commission's authority to reopen 2015 General Rate Case

As the Department pointed out, under Minn. Stat. §216B.25, the Commission has the authority to reopen this rate case to supplement the record and adjust rates as it deems necessary.

> The commission may at any time, on its own motion or upon motion of an interested party, and upon notice to the public utility and after opportunity to be heard, rescind, alter, or amend any order fixing rates, tolls, charges, or schedules, or any other order made by the commission, and may reopen any case following the issuance of an order therein, for the taking of further evidence or for any other reason. Any order rescinding, altering, amending, or reopening a prior order shall have the same effect as an original order.

However, the Commission may wish to consider the effects of reopening the order. Even though Great Plains has admitted fault in this proceeding, going back and ordering a change based solely on this omission could be considered in the realm of single-issue ratemaking

[9] Id.

related to the sales forecast. Ratemaking is generally an imprecise process; the Commission may wish to consider the overall significance of the error identified in this proceeding and determine if the error has resulted in rates that overall are unjust or unreasonable.

B. Great Plains' admission of error and proposed process improvements

Since the Department filed its request to show cause, Great Plains has provided a great deal of context surrounding the events that led to the Company omitting revenues from a large customer that came online shortly after the filing of its general rate case. The Department has largely accepted GP's explanation and focused its comments on how to avoid a similar event from occurring in a future rate case. As noted on pages 4-5 of these Staff Briefing Papers, Great Plains provided three process improvements that seem to address the miscommunications that led to the customer being omitted from its test year sales forecast and subsequent updates during the rate case. Staff agrees with the Department's recommendation to continue to collaboratively assess internal controls and identify potential improvements going forward.

C. Refund to customers

Great Plains and the Department agree that the Company should refund $54,456 to ratepayers. The Department proposed that GP use the class revenue apportionment used in the rate case, provided by the Department as Table 1[10] to allocate the refund to customers.

Table 1: Refund Amount by Rate Group

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

[10] Department of Commerce, Reply Comments, Page 8

The Department does not believe a modification to currently approved volumetric rates is necessary since the current RDM accounts for the omission of the revenues on a going-forward bases.

There are three proposed methods by which the refund could be delivered to ratepayers. Great Plains and the Department appear to be in agreement that this amount could be rolled into another adjustment, either through the RDM or by the Tax Cuts and Jobs Act (TCJA)[11] refund. Alternatively, the Commission could order the Company to utilize a one-time bill credit.

In the TCJA docket, the Commission will decide whether to accept all utilities' compliance filings.[12] One of the underlying decisions to be made in the TCJA docket is whether to allow Xcel Energy to roll another refund, the Annual Incentive Plan, into the TCJA refund. The Commission may find that rolling in other refunds into the TCJA does not comply with the Commission's TCJA Order. Mainly because of concerns about transparency and the impact of increasing or decreasing the apparent size of the TCJA refund. The Commission may or may not decide to allow Xcel Energy and Great Plains' requests to include other amounts in the TCJA refund. The Commission may wish to consider the two utilities' requests collectively in order to ensure consistency in its decisions.

With respect to the alternative, adding this refund into the RDM could add another layer of complexity into the regulatory review of GP's operation of its revenue decoupling mechanism. On February 7, 2019, the Commission issued its Order Accepting Decoupling Report as Modified, and Providing Instructions for Future Reports, in this docket. The Commission may want to order Great Plains to make a supplement filing to amend its March 1, 2019 RDM report to incorporate the $54,456 refund into the 2019 RDM rate adjustment.

With respect to the third alternative, i.e. requiring the Company to issue a bill-credit. This alternative could prove to be administratively burdensome for GP for arguably what are relatively small refunds. Additionally, Staff does not recommend using deferred accounting to address this refund in GP's upcoming rate case.

[11] Docket E, G-999/CI-17-895

[12] Agenda Meeting tentatively scheduled for April 11, 2019

V. Decision Options

Should a refund be required?

1. Require Great Plains to refund $54,456 to ratepayers using the revenue apportionment methodology proposed by the Department in Table 1 of these Staff Briefing Papers. (Great Plains, Department, Staff)

2. Order Great Plains to refund $54,456 to ratepayers using a different methodology to allocate the refund to customers.

3. Do not require a refund

If a refund is ordered, how should it be implemented?

4. Order Great Plains to implement the refund using the allocation mechanism identified above in an amendment to its 2019 RDM filing. (GP alternative, Department alternative, Staff)

5. Order Great Plains to implement the refund using the mechanism identified in the Tax Cuts and Jobs Act docket (E, G-999/CI-17-895). (GP alternative, Department alternative)

6. Order Great Plains to issue a one-time bill credit.

Internal Controls and Other Potential Process Improvements

7. Order Great Plains to implement its process improvements as proposed in its initial comments which are reproduced on page 5 of these Staff Briefing Papers. Additionally, require Great Plains to continue to collaborate with the Department to assess internal controls and identify process improvements. (Great Plains, Department, Staff)