

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Dan Lipschultz  
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Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of the Petition by Great Plains  
Natural Gas Company, a Division of MDU  
Resources Group, Inc., for Authority to  
Increase Natural Gas Rates in Minnesota

ISSUE DATE: February 7, 2019

DOCKET NO. G-004/GR-15-879

ORDER ACCEPTING DECOUPLING  
REPORT AS MODIFIED, AND  
PROVIDING INSTRUCTIONS FOR  
FUTURE REPORTS

**PROCEDURAL HISTORY**

On September 6, 2016, the Commission issued an order setting new rates for Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc. (Great Plains).<sup>1</sup> Among other topics, the order directed the utility to gradually adopt uniform rates between its northern and southern service areas, implemented in phases. And the order authorized Great Plains to implement a three-year pilot program implementing revenue decoupling, including annual reports identifying the prior year's sales and revenues, and proposing appropriate rate adjustments.

On September 22, 2016, Great Plains filed tariffs designed to implement the decisions set forth in the September 6, 2016 order. In particular, the tariff stated that "the initial report shall reflect a 12-month period that begins on the first day of the month succeeding the implementation of final rates."<sup>2</sup>

On December 22, 2016, the Commission issued a supplementary order authorizing Great Plains to implement final rates effective January 1, 2017, and to submit final tariff sheets incorporating the Commission's decisions.<sup>3</sup>

On January 3, 2017, Great Plains filed final tariff sheets and rates to be effective on January 1. The filing provided for the utility to file annual reports on its decoupling program "[n]o later than December 15<sup>th</sup> of the calendar year following the Commission's approval of the [decoupling] tariff, and each December 15<sup>th</sup> thereafter...."<sup>4</sup>

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<sup>1</sup> This docket, Findings of Fact, Conclusions and Order (September 6, 2016).

<sup>2</sup> This docket, Aberle Direct, Appendix B Proposed Tariffs, Original Sheet No. 5-126.

<sup>3</sup> This docket, Order Approving Final Revenue Apportionment and Rate Design, Updated Base Cost of Gas and Interim-Rate Refund Plan (December 22, 2016).

<sup>4</sup> Section 5 Original Sheet Nos. 125-126.

On January 18, 2017, the Minnesota Department of Commerce (Department) issued a letter reviewing Great Plains’ tariff language implementing the plan to consolidate the rates in the utility’s two service areas, and concluded that “the Company has met its compliance requirement.”

On December 1, 2017, Great Plains filed its first annual evaluation report for its pilot revenue decoupling program, evaluating a period from October 1, 2016, through September 30, 2017.

On April 6, 2018, the Department filed comments finding fault with Great Plains’ report.

On May 1, 2018, Great Plains filed reply comments.

On September 7, 2018, the Department filed a response to Great Plains’ reply.

On October 4, 2018, Great Plains filed additional reply comments.

On December 20, 2018, this matter came before the Commission.

## **FINDINGS AND CONCLUSIONS**

### **I. Summary**

The Commission will accept Great Plains’ revenue decoupling evaluation report for 2017 with modifications. And for future annual decoupling evaluation reports, the Commission will direct Great Plains to do the following:

- Develop its report to reflect data from the prior calendar year.
- Conduct its analysis using weather data normalized over 30 years.
- File its reports by March 1 of the year following the period evaluated—for example, by March 1, 2019, for calendar year 2018.
- Initiate a new docket when filing an evaluation report.

### **II. Background and Jurisdiction**

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.<sup>5</sup> *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. Minn. Stat. § 216B.2412 provides for the Commission to approve decoupling pilot programs of up to three years to explore whether this rate design promotes energy savings.

In general, a decoupling plan entails dividing the utility’s customers into separate classes (for example, Residential, Firm General, Small Interruptible, and Large Interruptible), calculating an amount of costs (other than the cost of the gas itself) to be recovered from each class each year, and then tracking the revenues generated by each class. Each year the utility reports, for each

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<sup>5</sup> See generally Minn. Stat. § 216B.16.

class, 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 class'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.

### **III. Contested Issues**

#### **A. Evaluation Period**

The Department and Great Plains disagree about the appropriate period to analyze in the utility's decoupling report, and thus the appropriate period for calculating decoupling rate adjustments.

Great Plains' decoupling report analyzed one year of data, beginning with the first month following the Commission's September 6, 2016 order—that is, starting on October 1, 2016—and calculated rate adjustments on this basis. Great Plains defended its choice to develop its decoupling report based on data from this period. The utility argued that this period is consistent with its tariffs, which provide for the Great Plains to make its annual decoupling filing by December 15<sup>th</sup>—suggesting a period for analysis that ends in October, not January. Great Plains noted that the Department's letter of January 18, 2017, acknowledged that these tariffs comply with all relevant filing requirements. Moreover, Great Plains argued that excluding consideration of data from October to December 2016 would cause the utility to lose the opportunity to recoup its under-recovered revenues from this period.

The Department argued that Great Plains should have generated its decoupling report based on data from the 2017 calendar year rather than from the period October 2016 to September 2017. The Department noted that Great Plains' rate case testimony, its September 22, 2016 compliance filing, and the Commission's December 22, 2016 order all reflected the premise that Great Plains would develop its report for the 12 months following implementation of new rates—that is, for calendar year 2017. The Department clarified that its January 18, 2017 letter found that the utility was fully complying with the Commission's order regarding the consolidation of rates between its two service areas—not regarding the period for calculating decoupling adjustments.

The Department objected to Great Plains' choice to incorporate into its analysis sales and revenues from before the new rates took effect—thereby complicating efforts to evaluate the new rate design's effect on conservation—and before ratepayers would have received notice of the change. Accordingly, the Department recommended that the Commission adopt different rate adjustments based on calendar year 2017. And the Department recommended modifying the tariff to clarify that Great Plains should file its decoupling reports by March 1, not December 15, following the end of the year being reviewed.

#### **B. Design Revenue**

In its September 6, 2016 order, the Commission noted that Great Plains proposed to calculate its decoupling adjustment using either of two methods, labeled “per customer” and “per customer class.” The Commission concluded—

While neither method is inherently incorrect, and both can measure net gains and losses, the operation and financial impact of these methods warrant exploration. Experience with both methods may bring to light equitable or policy considerations that are not immediately apparent.

The Commission will therefore require Great Plains to calculate its annual decoupling adjustment using both methods and to report the results in its annual and final reports on its pilot decoupling program. In the meantime, the Company will be permitted to use either method.<sup>6</sup>

The Department argued that the practice of granting Great Plains multiple methods to calculate its decoupling adjustment permits the utility to choose, after the fact, how its operations will be evaluated. In effect, the Department argued, this arrangement permits the utility to maximize its benefit at the expense of ratepayers, but without providing any added incentive to generate benefits. In addition, because Minn. Stat. § 216B.03 requires that doubts about the reasonableness of a rate be resolved in favor of customers, the Department argued that Great Plains is required to calculate its adjustments in a manner that promotes the customers' interest, not the utility's.

Great Plains denied that it selected its design revenue formula opportunistically, simply to maximize its own benefit at the expense of ratepayers. That said, Great Plains cited two rationales supporting the policy of permitting the utility to calculate its decoupling adjustment using either the "per customer" or "per customer class" method. First, this flexibility accommodates customer growth, acknowledging the added costs of serving more customers. Second, the flexibility ensures the utility would not have to pay a refund to a customer class when the utility had not recouped its expected costs from that class.

In any event, Great Plains argued, the general prohibition on retroactive ratemaking should discourage the Commission from attempting to impose any retroactive changes to this formula.<sup>7</sup>

### **C. Weather Normalization**

To establish and adjust rates using decoupling, Great Plains must establish a forecast of the amount of energy that will be required to serve each customer, or each class of customer. These forecasts are complicated by the fact that changes in weather will produce changes in energy consumption, especially among residential and commercial customers. *Weather normalization* refers to the practice of using historical weather data to adjust sales forecasts to reflect "normal" weather conditions.

The Department objected to Great Plains' practice of normalizing its weather data over a period of 30 years rather than 20 years. According to the Department, a 20-year period has become the industry standard in Minnesota.

Great Plains stated that it would have no objection to normalizing its weather data based on 20 years of data after its next rate case, assuming Great Plains continues to use a decoupling rate

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<sup>6</sup> September 6, 2016 order, at 42.

<sup>7</sup> See generally Minn. Stat. § 216B.05.

design. But Great Plains recommended retaining the practice of relying on a 30-year normalization to maintain consistency with the analysis in its Conservation Improvement Program reports. According to Great Plains, incorporating a 20-year normalization into its decoupling adjustment calculations at this point would not change the revenue decoupling adjustment and would impose a needless computational burden without generating any substantial benefits..

#### **D. New Industrial Customer**

During the analysis of Great Plains' decoupling report, the Department learned that a new customer subscribed for Great Plains' Large Industrial Interruptible General Gas Transport service (Large Class N82) 13 days after Great Plains filed its last rate case, and Great Plains failed to disclose this fact throughout those proceedings. According to the Department, Great Plains inappropriately excluded data regarding its sales to this customer when it prepared supplemental direct testimony, and inaccurately stated that no known and measurable changes had arisen since it filed its case. At a minimum, the Department argued, Great Plains should revise its decoupling adjustments to account for this new data.

Great Plains stated that it failed to incorporate the new customer's data into the last rate case due to an oversight, and acknowledged the decoupling adjustment should reflect these sales.

#### **IV. Commission Action**

The Commission notes that this docket addresses Great Plains' first revenue decoupling pilot program, and that changes and clarifications are expected. The Commission appreciates the work of the utility and the Department in developing the issues and ensuring appropriate rate adjustments.

The Commission concurs with the Department that the Commission's orders provided for Great Plains to analyze the results of its revenue decoupling program reflecting the utility's new rates. Because those rates took effect on January 1, 2017, the appropriate period for analysis is calendar year 2017. While Great Plains argues that this change will cause it to forego under-recovered revenues from October through December 2016, the Commission notes that re-calculating the adjustments will simply result in substituting data from October through December of 2017 for the data from the same months of 2016. The Commission finds no systemic reason to anticipate that one set of data would generate larger rate adjustments than the other.

In contrast, the Commission is not persuaded of the need to alter Great Plains' method of calculating the design revenue. Whatever the merits of the Department's arguments in the abstract, they do not apply to the current case. The Commission's September 6, 2016 order expressly authorized Great Plains to use its own discretion regarding the design revenue calculation; the Commission cannot fault Great Plains for acting in reliance on the Commission's order. While Minn. Stat. § 216B.03 provides guidance for resolving doubts about rates, it does not apply where, as here, the Commission's order left no ambiguity about the utility's right to use its own discretion. Accordingly, the Commission will decline to adopt the Department's proposed adjustments to these calculations.

Similarly, the Commission will decline to adopt the Department's proposal to require Great Plains to normalize its energy sales data using 20 years of weather-related data rather than 30. The

Commission acknowledges that changes in climate mean that more recent climate data will tend to be more representative of current climatic circumstances than older data. But the Commission is not persuaded that these changes require Great Plains to immediately discontinue its longstanding practice of weather-normalizing data over 30 years—especially given that the utility uses 30-year weather normalization for analyzing its Conservation Improvement Programs.

And the Commission concurs with the parties that any analysis of Great Plains’ revenue decoupling program and rate adjustments must incorporate sales to the utility’s new industrial customer.

Having reviewed Great Plains’ 2017 revenue decoupling evaluation report, the Commission will accept it with the provisos discussed—that is, modified to reflect the period of January 1, 2017, to December 31, 2017, and to incorporate data arising from the new customer. These changes are set forth in Table 1, below:

**Table 1 - Capped Decoupling Adjustment Balances**

<b>Class</b>	<b>Decoupling Adjustment Balance</b>	<b>As Corrected</b>	<b>Difference</b>
Residential Rate - N60	\$121,762	\$121,762	\$0
Residential Rate - S60	\$112,633	\$112,633	\$0
Firm General - N70	\$98,520	\$98,520	\$0
Firm General - S70	\$143,548	\$146,009	\$2,461
Small Interruptible - N71 & N81	\$29,511	\$29,511	\$0
Small Interruptible - S71 & S81	(\$17,715)	(\$17,715)	\$0
Large Interruptible - N85 & N82	\$42,082	(\$61,255)	(\$103,337)
Large Interruptible - S85 & S82	(\$301,310)	(\$301,310)	\$0
Total Under / (Over) Collection	\$229,031	\$128,155	(\$100,876)

(“N” denotes customers in Great Plains’ northern service area; “S” denotes customers in Great Plains’ southern service area.)

To clarify, the Commission will direct Great Plains to take the following three steps in developing its future decoupling evaluation reports:

- Develop its reports reflecting data from the prior calendar year.
- File its reports by March 1 of the year following the period evaluated—for example, by March 1, 2019, for calendar year 2018.
- Initiate a new docket when filing each new report—thereby helping parties distinguish decoupling-related filings from rate case-related filings in general.

And for the meantime, the Commission authorizes Great Plains to continue adjusting its sales data to reflect normal weather over a period of 30 years.

The Commission will so order.

## ORDER

1. The Commission accepts the 2017 revenue decoupling evaluation report filed by Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc., but modifies the decoupling adjustments to reflect the period of January 1, 2017, to December 31, 2017, and to incorporate the new customer, as set forth in Table 1, above.
2. Great Plains may continue adjusting its sales data to reflect normal weather calculated over a period of 30 years.
3. In future annual decoupling evaluation reports, Great Plains shall do the following:
  - A. Develop its report to reflect data from the prior calendar year.
  - B. File its reports by March 1 of the year following the period evaluated—for example, by March 1, 2019, for calendar year 2018.
  - C. Initiate a new docket when filing an evaluation report.
4. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf  
Executive Secretary



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