MINNESOTA DEPARTMENT OF COMMERCE

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August 8, 2016

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G004/M-16-384

Dear Mr. Wolf:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Great Plains Natural Gas Company's 2015 Conservation Improvement Program Status Report and CIP Tracker and Demand Side Management Incentive (*Petition*).

The *Petition* was filed on May 2, 2016 by:

Tamie A. Aberle
Director of Regulatory Affairs
Great Plains Natural Gas Co.
400 North Fourth Street
Bismarck, ND 58501

As discussed in greater detail in the attached *Comments*, the Department requests further information from Great Plains, and will provide final recommendations after reviewing Great Plains' reply comments. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ DANIELLE WINNER
Rates Analyst

DW/ja
Attachment

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. ?

I. SUMMARY OF THE UTILITY'S FILING

On May 2, 2016, Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company), submitted its 2015 Conservation Improvement Program Status Report and CIP Tracker and Demand Side Management Incentive (*Petition*) to the Minnesota Public Utilities Commission (Commission, MPUC, or PUC). The Company's *Petition* included:

- a proposed 2015 Demand Side Management (DSM) financial incentive of $477,077;
- a report of proposed recovery and expenditures in its Conservation Improvement Program (CIP) tracker account during 2015; and
- a proposed change to the Conservation Cost Recovery Adjustment (CCRA).

In addition, Sections I and II of the Petition contained the Company's *2015 Conservation Improvement Program Status Report* (*Status Report*) for the period January 1, 2015 through December 2015. The *Status Report* is intended to fulfill the requirements of the Minnesota Department of Commerce, Division of Energy Resources' annual CIP reporting rules contained in Minnesota Rules part 7690.0500. Since the Company's *Status Report* does not require Commission approval, this portion of the *Petition* has been assigned a separate docket number.[1]

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) provides its analysis and recommendations below.

[1] See Docket No. G004/CIP-12-573.03.

II. COMMISSION'S 2015 ORDER AND COMPANY'S 2015 RATE CASE

On August 31, 2015, the Commission issued its Order in Docket No. G004/M-15-422 approving Great Plains' DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved Great Plains' proposed 2014 DSM financial incentive of $42,180 to be included in the Company's CIP tracker account no sooner than the issue date of this Order.
2. Approved the CIP tracker activity and end of 2014 tracker balance as shown in Table 1 of the Department's July 1, 2015 Comments.
3. Approved the Great Plains' revised proposed CCRA of $0.0225 per Dth for all customer classes and require that the CCRA approved by the Commission to be effective in the billing month immediately following the issue date of this Order, conditioned on the Company submitting, within 10 days of this Order, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations.
4. Required Great Plains, in future petitions for approval of its CIP Tracker and demand side management incentive, to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate as of the time the Company is preparing the petition.
5. Required Great Plains to include the following bill message in the billing month immediately following the date of this Order:

   > Great Plains recovers the costs changes in its energy conservation programs from the base established though a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of $0.0225 per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

On September 8, 2015, Great Plains filed an updated tariff page to reflect the approved recovery rate. The Department filed a compliance sign-off form on September 25, 2015. Great Plains' proposed rate went into effect October 1, 2015.

On September 30, 2015, the Company filed a General Rate Case, Docket No. G004/GR-15-879. The Company increased its Conservation Cost Recovery Charge (CCRC) by $0.0304, from $0.02590 to an interim rate of $0.0563. To account for this increase, the Company decreased its CCRA by $0.0304, from $0.0225 to ($0.0079). The new interim rates went into effect January 1, 2016.

III. THE DEPARTMENT'S ANALYSIS

The Department's analysis of Great Plains' *Petition* is provided in the following sections:

- in Section III.A, Great Plains' proposed 2015 DSM financial incentive;
- in Section III.B, Great Plains' proposed 2015 CIP tracker account;
- in Section III.C, Great Plains' proposed gas Conservation Cost Recovery Adjustment; and
- in Section III.D, a review of Great Plains' CIP activities for the period 2009 through 2015.

A. GREAT PLAINS' PROPOSED 2015 DSM FINANCIAL INCENTIVE

1. Background and Summary of Great Plains' Proposed 2015 DSM Financial Incentive

The Shared Savings DSM financial incentive plan was approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010. On December 20, 2012 the Commission issued its *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives* (Modification Order). The Shared Savings approach emphasizes a 1.5 percent energy savings goal, and ties the incentive earned by the utility to pursuit of the 1.5 percent savings goal. The incentive mechanism sets a specific dollar amount per unit of energy saved that each utility will earn at energy savings equal to 1.5 percent of annual non-CIP-exempt retail sales. That dollar amount is referred to as the incentive calibration. The higher the calibration, the higher the incentive will be at all energy savings levels; however, the incentive calibration does not take effect until a specified savings threshold is reached. Each electric utility's incentive is calibrated so that when the utility achieves energy savings equal to 1.5 percent of retail sales, electric utilities will earn an incentive equal to $0.07 per kWh saved and gas utilities will earn $9 per thousand cubic feet (Mcf) saved. The Commission's Modification Order stated, in part:

> *The Commission hereby adopts the Department's proposal for the continuation of the new shared savings financial incentive with the following:*
>
> A. A threshold set at half of the utility's average achievements from 2007 to 2011 for utilities with triennial CIPs beginning in 2013, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest. For utilities with triennial Conservation Improvement Programs beginning in 2014, the threshold shall be set at half of the utility's average achievements from 2008 to 2012, removing both the maximum and minimum

achievements, or at 0.4 percent of retail sales, whichever is lowest.

B. The calibration at 1.5 percent of retail sales for each utility set as follows: (1) $9.00 per Mcf for natural gas utilities, and (2) $0.07 per kWh for electric utilities.
C. A utility may not modify its incentive to correct for non-linear benefits.
D. The incentive shall be capped at 20 percent of net benefits for all utilities except for Minnesota Power. The Commission will defer a decision on the application of the 20 percent cap of net benefits for Minnesota Power until 2013 to allow for the consideration of updated avoided cost information for this utility.
E. The existing cap of 125 percent of a utility's 1.5 percent calibration level for the electric utilities ($0.0875 per kWh) and a cap of 125 percent of the 1.0 percent target calibration for gas utilities ($6.875) per Mcf are continued.
F. The percentage of net benefits to be awarded to each utility at different energy savings levels will be set at the beginning of each year.
G. The CIP-Exempt Class shall not be allocated costs for the new shared savings incentive. Sales to the CIP-Exempt Class shall not be included in the calculation of utility energy savings goals.
H. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.
I. If a utility elects to include a third-party project, the project's net benefits and savings will be included in calculation of the percentage of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post CIP year calculations of net benefits and energy savings achieved and incentive awarded. In any case, the energy savings will count toward the 1.5 percent savings goal.
J. The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive, but will not change the percent of net benefits awarded at different energy savings levels.
K. The costs of any mandated, non-third-party projects (*e.g.*, Next Generation Energy Act assessment, University of Minnesota Institute for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits awarded at specific energy savings levels

(calculated before the CIP year begins) and in the post-CIP year calculations of net benefits and energy savings achieved and incentive awarded.

L. Costs, energy savings, and energy production from Electric Utility Infrastructure Projects (EUIC), solar installation and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.
M. The Department shall file a recommendation with the Commission on the application of a net benefits cap for Minnesota Power's incentive by October 1, 2013. The recommendation should be filed in Docket No. E,G-999/CI-08-133.
N. No adjustment will be made at this time to the calibration of the incentive mechanism for utilities that have Commission approved decoupling mechanisms.
O. The new shared savings DSM incentive shall be in operation for the length of each utility's triennial CIP plan.

Further, the Commission approved a net benefits cap of 30 percent for Minnesota Power on November 19, 2013.

With respect to net benefits, Great Plains provided in its *Petition* the benefit-cost results of the revenue requirements test associated with the Company's 2015 CIP. According to the Company, Great Plains' 2015 CIP activities resulted in an estimated $3,048,866 of net benefits before the requested incentive.[2] Great Plains also stated that its CIP activities achieved energy savings in 2015 of 69,393 dekatherms (Dth).[3] Based on the terms and conditions of its approved DSM incentive plan, Great Plains requested approval of a 2015 financial incentive of $477,077.

2. The Department's Review of Great Plains' Proposed 2015 DSM Financial Incentive

In Docket No. G004/CIP-12-573, the Department's CIP Engineering Staff reviewed Great Plains' CIP Status Report and recommended approval of the Company's claimed demand and energy savings. In that same docket, the Deputy Commissioner of the Department approved Great Plains' claimed savings on July 29, 2016. Thus, in the present docket, the Department based its analysis on the Great Plains' approved savings level of 69,393 Dth.

[2] *Petition*, Attachment F. To get the percentage of net benefits achieved, calculate number of "steps" from the zero point to the 1.5% savings goal (12.46), and adjust that number by the multiplier (1.36562).
[3] The Department notes that the Company uses dekatherms, denoted dk in Company filing, rather than thousand cubic feet.

The Department notes that 69,393 Dth of energy savings equates to 1.246 percent of the Company's reported average non-CIP-exempt retail sales of 5,570,068 Dth.[4] Great Plains calculates that it receives approximately 1.36562 percent of the net benefits created by its 2015 CIP investments for every 0.1 percent of sales saved above zero.[5] This yields a figure of 17.01337 percent of net benefits achieved, for a total incentive of $518,715. However, this incentive produces a cost per savings of $7.475/Dth, violating the approved $6.875/Dth saved cap. Thus, the Company has proposed a financial incentive of $477,077, based on multiplying savings achieved by the $/Dth saved cap. This figure equates to 15.65 percent of net benefits achieved.

The Department verified the calculation of the financial incentive and recommends that the Commission approve Great Plains' proposed 2015 DSM financial incentive of $477,077 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket.

B. GREAT PLAINS' 2014 CIP TRACKER ACCOUNT

In its *Petition*, Great Plains requested approval of its report on recoveries and expenditures in the Company's CIP tracker account during 2015. Table 1 provides a summary of these activities.

Table 1: Summary of Great Plains' CIP Tracker Account in 2015[6]

Description	Time Period	Amount
Beginning Balance	January 1, 2015	($49,755)
CIP Expenditures[7]	January 1 through December 31, 2015	$724,644
Recovery via Base Rates (CCRC)	January 1 through December 31, 2015	($139,898)
Recovery via CCRA	January 1 through December 31, 2015	($359,163)
Carrying Charges[8]	January 1 through December 31, 2015	($717)
2013 DSM Financial Incentive	January 2015	$24,137
2014 DSM Financial Incentive	August 2015	$42,180
Ending Balance (Over)/Under	December 31, 2015	$241,428

[4] Average sales are based on the three-year average of non-CIP-exempt retail sales from 2009-2011. This figure was approved as part of the utility's 2015 CIP Incentive Mechanism Plan filing in Docket No. G004/M-15-108.
[5] *Petition*, Attachment F.
[6] *Petition*, Attachment E, pages 2-3.
[7] The Company's CIP Tracker lumps the financial incentive in with the CIP Expenditures. CIP Expenditures also include Next Generation Energy Act of 2007 (NGEA) assessments of $19,101 and miscellaneous expenses of $1,299 (*Petition*, pages 10-11).
[8] The Company's 2015 CIP Tracker Account was over-recovered for the majority of the year, and so total annual carrying charges accrued in the favor of ratepayers.

The Company's CIP Tracker reflects the Commission's 2013 DSM financial incentive of $24,137 and 2014 DSM financial incentive of $42,180. As such, Great Plains reported CIP Expenditures of $790,691, with the figure including both DSM financial incentives.

In the past, Great Plains and other utilities used their allowed rates of return to calculate carrying charges. This was changed when the Commission directed utilities to begin using the short-term cost of debt established in their most recent rate case. Great Plains had not established a short-term cost of debt in its latest rate case, so the Commission directed Great Plains to use the interest rate of the two-year Treasury bond. The Commission's December 17, 2014 Order in Docket No. G004/M-14-439 states:

> The Commission modifies the carrying charge on the CIP tracker-account balance to the October 29, 2014 U.S. two-year U.S. Treasury Bond rate. This change shall become effective in the month following the date of this order.

The interest rate on October 29, 2014 was 0.48%. The Company used this rate, divided by 12, to calculate their monthly interest factor in their 2014 CIP Tracker, which was approved by the Commission.[9] The Commission also directed the Company, in future CIP Tracker filings, to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate as of the time the Company is preparing the petition.

In its 2015 CIP Tracker, the Company continued to use the October 29, 2014 two-year U.S. Treasury Bond rate, and by doing so failed to comply with the Commission's directive to update the interest rate to reflect the two-year U.S. Treasury bond interest rate at the time of preparation. However, in emails with the Department, the Company stated that this was simply an oversight and agreed to update the carrying charge rate to 0.75%, the two-year U.S Treasury Bond rate as of April 18th, 2016. If the updated rate were used, the Company estimates an increase in carrying charges of $377, for a total of $1,094 to be paid back to ratepayers. The Department verified the Company's calculations in Attachment A of the attached spreadsheet, and concludes that they accurately reflect the updated carrying charge rate.[10] A corrected summary of Great Plains' 2015 CIP Tracker is provided in Table 2 below:

[9] Commission Order, August 31, 2015, Docket No. G004/M-15-422.
[10] The Department calculated a total increase of $1,096 paid back to ratepayers, but concludes that the difference is likely due to rounding error. In Table 2, as well as in Attachment B, the Department used the Company's numbers.

Table 2: Summary of Great Plains' CIP Tracker Account in 2015, Updated to reflect the Appropriate Two-Year U.S. Treasury Bond Interest Rate

Description	Time Period	Amount
Beginning Balance	January 1, 2015	($49,755)
CIP Expenditures	January 1 through December 31, 2015	$724,644
Recovery via Base Rates (CCRC)	January 1 through December 31, 2015	($139,898)
Recovery via CCRA	January 1 through December 31, 2015	($359,163)
Carrying Charges	January 1 through December 31, 2015	($1,094)
2013 DSM Financial Incentive	January 2015	$24,137
2014 DSM Financial Incentive	August 2015	$42,180
Ending Balance (Over)/Under	December 31, 2015	$241,051

The Department also notes that Great Plains filed a general rate case August 3, 2015 in Docket No. G004/GR-15-879 that includes a proposed short-term cost of debt. The Department expects that by time the Company's annual CIP Tracker is filed next year, a final short term cost of debt will have been approved by the Commission. Therefore, the Department recommends that the Commission require Great Plains to use the approved short-term cost of debt as the CIP Tracker carrying charge beginning with its 2017 CIP Tracker filing.

The Department recommends that the Commission approve Great Plains' 2015 CIP Tracker account activity, as modified to reflect the April 18, 2016 two-year U.S Treasury Bond interest rate as shown in Attachment A to these comments and summarized in Table 2 above. The Department also recommends that the Commission direct the Company to use the short term cost of debt that will be approved by the Commission in Docket No. G004/GR-15-879 to calculate carrying charges going forward.

C. GREAT PLAINS' CONSERVATION COST RECOVERY ADJUSTMENT

1. Great Plains' Proposed CCRA

Minnesota Law states in relevant part that the Commission "may permit a public utility to file rate schedules for annual recovery of the cost of energy conservation improvements."[11] This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment (CCRA).

[11] See Minn. Stat. §216B.16, subd. 6b(c).

In its *Petition*, Great Plains requested approval of a revised CCRA of $0.0954 per Dth, an increase of $0.1033 from the current CCRA of ($0.0079).[12] The proposed CCRA was derived by assuming recovery of a total of $1,088,570 through the CCRA over a 24-month period. The Company stated that as a result of the CCRA increase, the average residential customer using 74 Dth per year would pay a total annual CIP cost of $11.23, a $7.65 increase from the current total annual CIP cost of $3.58.[13]

The Company noted that the increase in the CCRA was due primarily to three factors:

- During 2015, the Company's expenses exceeded its collections, resulting in a large unrecovered balance of $241,248 at the end of December, 2015;
- The 2015 financial incentive is much higher than in previous years as a result of the Company's gains in energy saved; and
- Great Plains expects to spend a majority of its budgeted expenses during 2016.

To mitigate the effect of increasing the CCRA, the Company proposed amortizing its recovery over a 24-month period, rather than a 12-month period.

2. The Department's Review of Great Plains' Proposed CCRA

The Department takes issue with two components of GPNG's filing: Great Plains' decision to charge a CCRA not approved by the Commission, and Great Plains' methodology used in calculating the CCRA. These issues are each discussed in further detail below.

a. Charging a CCRA not Approved by the Commission

The Department notes that what Great Plains characterized as the current CCRA of ($0.0079) is not the CCRA approved by the Commission in Docket No. G004/M-15-422. As was discussed above, Great Plains decreased its approved CCRA as of January 1, 2016 (when interim rates went into effect during the Company's ongoing rate case) commensurate with the increase in the CCRC. Great Plains' justification for adjusting its approved CCRA is unclear. Minnesota Stat. § 216B.16 states that "no public utility shall change a rate which has been duly established under this chapter, except upon 60 days' notice to the commission." It is conceivable that Great Plains considers the CCRA combined with the CCRC as a single rate for the purposes of CIP cost recovery.

However, the Department considers the CCRA and CCRC as separate rates. The CCRA is listed in the Company's tariff and is adjusted annually after Commission review and approval. Therefore Great Plains has been charging an un-tariffed, unapproved rate since January 1, 2016, in violation of statute. The Department also notes that had Great Plains

[12] See *Petition*, Attachment E, Page 1.
[13] Total estimated annual CIP costs include both CCRC and CCRA charges. *Petition,* Attachment E, Page 1.

continued to charge the approved CCRA, the under-recovery projected by the Company would not be so large.

The Department has calculated the difference between recoveries and carrying charges resulting from the unapproved CCRA, versus those that would have occurred had the CCRA been left at its approved value of $0.0225 per Dth. The Department's calculations used actual and projected numbers provided by the Company, and also used the updated carrying charge rate. The results can be found in Attachment B, and are summarized in Table 2 below.

Table 3: Effects of Great Plains' Unapproved Rate Implementation, January-August 2016

	Unapproved Rate	Approved Rate	Unapproved-Approved Difference
CCRA Rate ($/Dth)	(0.0079)	0.0225	
CIP-Applicable Sales Volumes charged at Unapproved Rate Jan-Aug 2016 (Dth)	3,687,017	3,687,017	
Carrying Charge ($)	1,245	993	252
CCRA Recovery ($)	(9,147)	82,958	(92,105)
Total Impact[14]			**92,357**

Table 3 shows that the Company over-recovered $252 in carrying charges and under-recovered $92,105 in the CCRA. Had the Company been using the approved rate all along, the beginning tracker balance as of September 2016 would be $518,758, or $92,357 less than the Company's current September 2016 balance of $611,115.[15]

The Department notes that the information in Table 2 is based on estimates beginning in April 2016; therefore, the Department requests that, in its reply comments, Great Plains update the information in the Department's Attachment B using the correct carrying charge rate and approved CCRA. The revised and updated information should be used to calculate the Company's CCRA. The Department will provide a final recommendation after reviewing Great Plains' reply comments.

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[14] In its CIP Tracker, Great Plains reports both CCRC and CCRA recovery as positive numbers, then subtracts total recovery from total expenses. The Department used this same trend here, although doing so reverses the sign of the total CCRA Recovery. To account for this in Table 3, the Department added the absolute value of CCRA Recovery to Carrying Charges in Table 2. The full impact forecast can be found in Attachment B.

[15] This figure reflects the Company's tracker balance using the updated carrying charge rate for January 2015-August 2016, the derivation of which can be found in Attachments A and B.

b. Great Plains' CCRA Methodology

As the Department noted last year, the CCRA is intended to capture three things:

1) the tracker balance at the beginning of the current year;
2) the current year's financial incentive, which reflects the previous year's activities; and
3) the projected CIP expenses, not otherwise recovered by the CCRC, for the time in which the proposed CCRA is in effect.[16]

Put another way, the CCRA should not only account for previous CIP activities, but should account for upcoming CIP activities as well. As a forward-looking true-up, rather than a backwards-looking one, the CCRA is meant to help utilities recover costs closer to the time expenses are incurred. This helps utilities maintain a tracker balance closer to zero, mitigate carrying charges, and plan for CIP expense fluctuations.

Of the above items, Great Plains' CCRA methodology adequately accounts for item #1, inadequately accounts for #2, and does not account for item #3. The appropriate methodologies for #2 and #3 are discussed in greater detail below.

#2: Treatment of the Financial Incentive in the Calculation of the CCRA

To account for the proposed financial incentive of $477,077, the Company tacks this figure onto the projected year-end August 31 tracker balance. This means that when calculating the CCRA, the financial incentive is not booked within a particular month. In reality, typically the financial incentive gets booked in the month following Commission approval, meaning that carrying charges do accrue on the financial incentive. By assuming that the CCRA is not booked until year-end, the Company is failing to account for future carrying charges that will accrue on the financial incentive, and thus is inadequately predicting costs the CCRA is meant to recover.

The Department recommends that the Company use a CCRA calculation methodology that adequately accounts for carrying charges associated with the financial incentive.

The Department also notes that in the interest of minimizing carrying costs, significant reductions could be achieved by booking 1/12 of the financial incentive each month over the recovery year, rather than in a single month subsequent to Commission approval.

To demonstrate the difference, the Department uses the Company's projected 2016-2017 CIP tracker and currently proposed financial incentive as an example. This projection accounts for the updated carrying charge rate, and both scenarios assume the same CCRA

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[16] See page 7 of the Department's Comments filed July 1, 2015 in Docket No. G004/M-15-422.

rate. The following table shows these differences, with backing documentation available in Attachment C.

Table 4: Comparison of Carrying Charges and Ending Balances for a Financial Incentive Booked in September versus amortized over its 12-month recovery period, using the same CCRA

	Sept Book	Amortized Book
Carrying Charge ($)	1,843	196
August 2017 Ending Balance ($)	0	(1,647)

The Department concludes that under the exact same CIP tracker scenario, a change in the booking of the financial incentive would result in $1,647 in savings to ratepayers from reduced carrying charges.

The results of Table 4 appear to indicate that booking the financial incentive over 12 months may impact the CCRA calculation. Therefore, the Department analyzed the two scenarios with the goal of moving towards a tracker balance of zero in 12 months, in order to test the potential impact on the CCRA to see whether further savings to ratepayers would be achieved. The result of this analysis is that if both the “Sept book” scenario and the “amortized book” scenario set the CCRA at a rate that zeros out the tracker in 12 months, the “amortized book” scenario results in a lower CCRA. This comparison gives a more complete picture of the true costs associated with a one-month book. More in-depth projections can be found in Attachment C1.

Table 5: Comparison of Carrying Charges, CCRA Rates and Recoveries, and Ending Balances for a Financial Incentive Booked in September versus amortized over its 12-month recovery period

	Sept Book	Amortized Book	Sept Book-Amortized Book Difference
CCRA Rate ($/Dth)	0.2716785	0.2713900	0.0002885
Carrying Charge ($)	1,843	203	1,647
Total CCRA Recovery ($)	1,544,845	1,543,205	1,640
August 2017 Ending Balance ($)	0	0	0

From these projections, the Department concludes that booking the financial incentive over the amortized period of its recovery would result in ratepayer savings of $1,647 in carrying charges and $1,640 in CCRA recovery, for a total ratepayer savings of $3,287.

The Department notes that smoothing the booking of the financial incentive over the year would affect neither the amount nor the timing of the utility's recovery of the financial incentive; the financial incentive would still be recovered in exactly the same fashion through the CCRA. Rather, booking the financial incentive "expense" over the same time period that it is recovered through the CCRA appears to reduce carrying costs charged to ratepayers.

The Department requests that the Company provide in reply comments its view on whether the Financial Incentive should be booked in a single month upon approval, or amortized over the year of its recovery through the CCRA.

#3: Treatment of Projected Expenses in the Calculation of the CCRA

In its calculation of the CCRA, the Company failed to account for projected CIP expenses not recovered by the CCRC. In its current methodology, the Company's proposed CCRA reflects only past under-recoveries rather than a projection of future costs. This is not only different from the standard methodology used by other utilities, but it also means that the Company begins recovering costs one full year behind the time they were incurred.

When the Department addressed this issue in the Company's CCRA filing last year, it noted: "By omitting the expected CIP expenses to be incurred during the period the proposed CCRA will be in effect from the CCRA calculation, Great Plains' [sic] is implicitly relying solely on its

CCRC revenue to cover its projected CIP expenses. This will likely result in a significant deficit in Great Plains' next CIP tracker filing."[17] Great Plains agreed with the Department, and adjusted its proposed CCRA accordingly.[18] As noted above, the Commission approved the revised CCRA of $0.0255 per Dth, based on using the forward-looking methodology.

This year, Great Plains proposed a CCRA based on expected CIP expenses through August 2016, again ignoring the expected expenses through August 2017. Even with the newly established interim CCRC rates, the Company will not come close to recovering projected CIP expenses, as shown the following table:

Table 6: Actual and Projected CIP Expenses and CCRC Recoveries, 2013-2018[19]

"Year End" Date	CIP Expenses (Excluding Incentive)	CCRC Recoveries	Percentage of Expenses Covered by CCRC
August 31, 2013	338,714	Approx. 140,000	41.3%
August 31, 2014	431,049	Approx. 140,000	32.5%
August 31, 2015	459,083	145,145	31.6%
August 31, 2016 (April-Aug estimated)	1,039,363	231,283	22.3%
August 31, 2017 (estimated)	867,306	320,139	36.9%
August 31, 2018 (estimated)	893,292	322,087	36.1%

This gap between expenses and recoveries means that the year-end tracker balance has gotten larger over time. Table 7 shows this trend.

[17] Department Comments Filed July 1, 2015, Docket No. G004/M-15-422, Page 7.

[18] Last year the Company was able to predict expenses with a better degree of certainty than usual, and re-submitted its filing using projected expenses. See Page 9 of Department Comments submitted July 1, 2015 in Docket No. G004/M-15-422.

[19] These figures come from previous years' Great Plains Tracker filings, as well as Great Plains' responses to Department Information Requests in the present docket, which can be found in Attachment E.

Table 7: Actual and Projected CIP Tracker Ending Balances as of August 31, Including Projected Financial Incentives[20]

Year	Aug 31 Tracker Balance (Including Incentive)
2010	($75,092)
2011	$157,400
2012	$276,568
2013	$298,349
2014	$33,206
2015	$241,051
2016 (April-August figures estimated)	$1,088,570
2017 (estimated)	$1,520,123
2018 (estimated)	$1,247,586

Using Great Plains' current methodology, in September 2018 the Company will *start* recovery of their projected August 2018 Tracker Balance of $1,247,586. While acknowledging that the Company's projections may be rough estimates, the Department is concerned about the Company's strategy for recovering increased expenses. In last year's filing, the Department noted that the Company does not like to project CIP expenses because it has a large number of custom projects and does not wish to over-collect if those projects fail to go through. However, the variability of the Great Plains' CIP activities should not excuse the Company from attempting to project expenses.

Finally, last year the Commission approved a CCRA that was based upon the updated methodology that includes consideration of the CIP expenses expected to be incurred over the recovery period. Therefore, the Department recommends that the Commission require Great Plains, in future filings, to calculate the CCRA based on the projected sales, expenditures, and any needed adjustments occurring over the period the CCRA will be in place.

[20] These figures come from previous years' Great Plains Tracker filings, as well as Great Plains' responses to Department Information Requests in the present docket. Projected figures do not include the adjustments for the unapproved rate, or updated carrying charge rate. The figures also reflect projected financial incentives; the Company clarified in emails with the Department that the projected financial incentives were not included in the Company's 2016-2018 CIP projections provided in response to DOC Information Request No. 1. CIP projections and financial incentive estimates are included in Attachment E.

3. 12-Month or 24-month Recovery Period

As noted above, Great Plains' proposed CCRA requests a 24-month amortization period for $1,088,570, which reflects the August 2016 tracker balance of $611,493 and the proposed financial incentive of $477,077. Given the multiple concerns discussed above, and in order to assist the Company in implementing a preferred CCRA methodology, the Department has calculated an alternative using the Company's projected CIP spending, natural gas sales, and financial incentives for activities in 2015 and 2016. The information provided by the Company can be found in Attachment E, and all background CIP Tracker documentation for the two scenarios can be found in Attachments D and D1.

The Department has calculated two alternative CCRAs, one based on a 12-month amortization schedule, and one based on a 24-month amortization schedule. Each of the two scenarios account for the following: the use of correct U.S. Treasury Bond Rate at the time of the Company's filing, the Department's calculated adjustment as a result of the Company's unapproved rate implementation, and the Department's recommended treatment of projected expenses. In its calculations, the Department used interim CCRC rates, which the Company expects to be similar to final CCRC rates, and assumed the financial incentives would be booked in September. Table 8 does not reflect a change in the carrying charge rate to reflect the rate that will be approved in the Company's pending rate case. The following table summarizes the results:[21]

Table 8: Comparison of CCRA scenarios, calculated with 12-month versus 24-month amortization schedules

	12-month	24-month
2016-2017 CCRA ($/Dth)	0.2716785	0.2224905
2017-2018 CCRA ($/Dth)	0.173232	0.2224905
2016-2017 Average CIP Annual Bill, both CCRA and CCRC ($)	24.27	20.63
2017-2018 Average CIP Annual Bill, both CCRA and CCRC ($)	16.99	20.63
Total Carrying Charges ($)	1,681	3,786
Total CCRA Recovery ($)	2,535,888	2,537,994

[21] See Attachment D for 12-month amortization projection and Attachment D1 for 24-month amortization projection.

In each scenario, the average ratepayer pays $41.26 in total CIP costs over the full two-year period. Under the 24-month scenario, the Company earns an additional $4,211 through carrying charges and CCRA recovery.

In general, a 12-month amortization period is the preferred scenario, with a goal of a zero-ending tracker balance at the Company's year-end of August 31. However, given the large rate hike that ratepayers are likely to experience in the switch to a forward-looking methodology, the Department concludes that in this instance, it may be better to smooth out that hike over a two-year period. The following table shows the comparison of the Company's current CCRA, and average annual CIP bill, with the estimated CCRA reflecting a 24-month recovery period:

Table 9: Comparison of Great Plains' Previously Approved CCRA and Department's Proposed CCRA

Previously Approved CCRA[22]	Department's Estimated 24-month CCRA	CCRA Percent Change	Current Average CIP Annual Bill (CCRA +CCRC)[23]	Proposed Average CIP Annual Bill (CCRA +CCRC)	CIP Annual Bill Percent Change
$0.0225	$0.2225	888.9%	$5.83	$20.63	253.9%

The Department encourages Great Plains to consider this analysis in its re-calculation of a proposed CCRA to be developed in the Company's reply comments. The Department will provide further analysis and final recommendations after reviewing Great Plains' reply comments.

4. Review of Customer Notification

Great Plains proposed to update the relevant tariff sheet with the approved CCRA on the Company's website upon approval by the Commission. Although this proposal would provide some degree of notification, the Department recommends, as it did last year, that a message be included on the customers' bills to provide better notification of the change in the approved CCRA, and to include its intent to do so in future CCRA filings. Specifically, the Department recommends that the Commission require Great Plains to include the following bill message in the billing month immediately following the date of the Order in the instant docket:

[22] The Department believes that comparing the proposed CCRA to the previously approved CCRA, rather than the unapproved interim CCRA, is a more representative comparison.
[23] This total uses the approved CCRA and the interim CCRC rate, and uses the Company's assumption of an average customer usage of 74 Dth per year.

> Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of [insert rate] per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

D. REVIEW OF GREAT PLAINS' DSM AND CIP ACTIVITIES (2010-2015)

In Attachment F, Table 1, the Department presents a historical comparison of Great Plains' DSM and CIP activities during the period 2010 through 2015. This table provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and energy savings have changed during that period.

An analysis of Attachment F, Table 1 indicates that, between 2010 and 2015, the Company's energy savings grew 69.4 percent, the Company's expenditures grew 298.2 percent, and the Company's incentives grew 2,422.2 percent. Great Plains' tracker balance was $241,051 at the end of 2015; this compares with a high of $369,299 in 2012 and a low of (49,755) in 2014. In the last seven years, Great Plains' carrying charges have ranged from $27,097 to ($7,527).

The Department has recently been engaged in discussions with stakeholders as to how to revise the incentive mechanism with the goal of mitigating both its amount and growth. A final incentive mechanism has been approved by the Commission and will be implemented in the Company's 2018 filing for the 2017 incentive. The Company forecasts that year's incentive to be $115,000, or about 13 percent of that year's requested $885,396 CIP expenditures.

IV. RECOMMENDATIONS

Based on the analysis above, the Department expects to recommend that the Commission:

1) approve Great Plains' 2015 financial incentive of $477,077 to be included in the Company's CIP tracker no sooner than the issue date of the Commission's Order in the present docket;
2) approve Great Plains' 2015 CIP Tracker account activity, as amended by applying the April 18, 2016 two-year U.S Treasury Bond interest rate as the carrying charge;
3) require Great Plains, in future petitions for approval of its CIP Tracker and demand side management financial incentive, to update the interest rate used to

calculate carrying charges based on the short-term cost of debt approved by the Commission in the Company's most recent rate case;

4) require Great Plains to use a CCRA calculation methodology that adequately accounts for carrying charges associated with the financial incentive;
5) require Great Plains, in future filings, to calculate the CCRA based on the projected sales, expenditures, and any pertinent adjustments, over the period the CCRA will be in place;
6) require Great Plains to include the following bill message (with the appropriate rate) in the billing month immediately following the date of the Order in the present docket:

> Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of [insert rate] per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

The Department will provide its complete and final recommendations after reviewing Great Plains' reply comments.

/ja

Great Plains January-December CIP Activity with Updated Carrying Charge Rate

Date	Beginning Balance	Carrying Charges	CIP Expenses	CCRC Recovery	CCRA Recovery	Total Recovery	Ending Balance
Jan-15	(49,755)	(31)	58,481	20,214	73,864	94,078	(85,383)
Feb-15	(85,383)	(53)	17,861	18,377	53,059	71,436	(139,011)
Mar-15	(139,011)	(87)	33,108	21,234	61,239	82,473	(188,463)
Apr-15	(188,463)	(118)	31,401	13,701	39,517	53,218	(210,398)
May-15	(210,398)	(131)	18,336	8,593	24,775	33,368	(225,562)
Jun-15	(225,562)	(141)	24,140	6,429	18,523	24,952	(226,515)
Jul-15	(226,515)	(142)	26,250	3,571	10,283	13,854	(214,260)
Aug-15	(214,260)	(134)	89,360	4,163	11,995	16,158	(141,192)
Sep-15	(141,192)	(88)	23,676	5,605	16,149	21,754	(139,358)
Oct-15	(139,358)	(87)	16,674	7,960	20,614	28,574	(151,345)
Nov-15	(151,345)	(95)	189,334	11,185	9,760	20,945	16,949
Dec-15	16,949	11	262,340	18,866	19,385	38,251	241,049
	(49,755)	(1,096)	790,961	139,898	359,163	499,061	241,049

Note: Carrying charge updated to reflect the two-year U.S. Treasury bond interest rate on April 18, 2016 of 0.75%.

Note: The Company's updated calculations produced total carrying charges of ($1,094), which produces a December 2015 ending balance of $241,051.
The Department expects this difference is due to rounding error, and used the Company's projection in Table 2 of the Department's Comments, as well as in Attachment B.

Great Plains' January 2016-August 2016 CIP Activity with Unapproved CCRA Rate

Date	Beginning Balance	Carrying Charges	CIP Expenses	CCRC Recovery	CCRA Rate	CCRA Recovery	CIP-Applicable Volumes	Total Recovery	Ending Balance
Dec-15									241,051
Jan-16	241,051	151	40,622	27,301	(-0.0079) and 0.02250	13,070	834,162	40,371	241,453
Feb-16	241,453	151	27,163	48,243	(0.00790)	(6,614)	860,101	41,629	227,138
Mar-16	227,138	142	36,732	43,072	(0.00790)	(5,913)	766,254	37,159	226,853
Apr-16 (estimated)	226,853	142	35,749	23,432	(0.00790)	(3,288)	416,200	20,144	242,599
May-16 (estimated)	242,599	152	20,896	14,739	(0.00790)	(2,068)	261,800	12,671	250,976
Jun-16 (estimated)	250,976	157	27,521	9,931	(0.00790)	(1,394)	176,400	8,537	270,117
Jul-16 (estimated)	270,117	169	29,924	10,213	(0.00790)	(1,433)	181,400	8,780	291,430
Aug-16 estimated)	291,430	182	328,732	10,736	(0.00790)	(1,507)	190,700	9,229	611,115
		1,245	547,339	187,667		(9,147)	3,687,017	178,520	611,115

Great Plains' January 2016-August 2016 CIP Activity with Approved CCRA Rate

Date	Beginning Balance	Carrying Charges	CIP Expenses	CCRC Recovery	CCRA Rate	CCRA Recovery	CIP-Applicable Volumes	Total Recovery	Ending Balance
Dec-15									241,051
Jan-16	241,051	151	40,622	27,301	0.02250	18,769	834,162	46,070	235,754
Feb-16	235,754	147	27,163	48,243	0.02250	19,352	860,101	67,595	195,469
Mar-16	195,469	122	36,732	43,072	0.02250	17,241	766,254	60,313	172,011
Apr-16 (estimated)	172,011	108	35,749	23,432	0.02250	9,365	416,200	32,797	175,071
May-16 (estimated)	175,071	109	20,896	14,739	0.02250	5,891	261,800	20,630	175,446
Jun-16 (estimated)	175,446	110	27,521	9,931	0.02250	3,969	176,400	13,900	189,177
Jul-16 (estimated)	189,177	118	29,924	10,213	0.02250	4,082	181,400	14,295	204,925
Aug-16 estimated)	204,925	128	328,732	10,736	0.02250	4,291	190,700	15,027	518,758
		993	547,339	187,667		82,958	3,687,017	270,625	518,758

Unapproved-Approved Difference		252				(92,105)		(92,105)	**92,357**

Note: December 2015 ending balance reflects Company's projected 2015 CIP Tracker ending balance, updated for more recent carrying charge rate.

Note: January 2016 CIP-Exempt Volume of 834,162: 646,776 Dth from December billed at approved rate of 0.0225 and 187,386 Dth from January billed at interim rate of (0.0079).

CIP-exempt volumes billed at negative interim CCRA in January was provided to the Department through emails with the Company.

Note: February and March 2016 CCRA Recovery provided by the Company do not appear to match CIP-applicable volumes provided by the Company.

Here, the Department used provided Company information even though it appears mismatched.

Note: Jan-March 2016 Sales and Expenses are Actual figures, April-Aug 2016 Sales and Expenses are Estimates.

Great Plains CIP Tracker 2016-2017
Assumptions: 2015 Financial Incentive Booked in September 2016, CCRA based on 12-Month Goal-Seek to Zero

Date	Beginning Balance	Carrying Charges	CIP Expenses	Total Volumes	CCRC Rate	CCRC Recovery	CCRA Rate	CCRA Recovery	Total Recovery	Ending Balance
Sep-16	611,115	382	411,659	278,400	0.0563	15,674	0.2716785	75,635	91,309	931,847
Oct-16	931,847	582	19,003	515,100	0.0563	29,000	0.2716785	139,942	168,942	782,490
Nov-16	782,490	489	90,584	652,500	0.0563	36,736	0.2716785	177,270	214,006	659,557
Dec-16	659,557	412	148,732	803,700	0.0563	45,248	0.2716785	218,348	263,596	545,105
Jan-17	545,105	341	43,198	823,400	0.0563	46,357	0.2716785	223,700	270,057	318,587
Feb-17	318,587	199	28,886	734,600	0.0563	41,358	0.2716785	199,575	240,933	106,739
Mar-17	106,739	67	39,061	646,300	0.0563	36,387	0.2716785	175,586	211,973	(66,106)
Apr-17	(66,106)	(41)	38,016	418,900	0.0563	23,584	0.2716785	113,806	137,390	(165,522)
May-17	(165,522)	(103)	22,221	262,900	0.0563	14,801	0.2716785	71,424	86,226	(229,630)
Jun-17	(229,630)	(144)	29,266	177,000	0.0563	9,965	0.2716785	48,087	58,052	(258,559)
Jul-17	(258,559)	(162)	31,822	182,100	0.0563	10,252	0.2716785	49,473	59,725	(286,624)
Aug-17	(286,624)	(179)	349,578	191,400	0.0563	10,776	0.2716785	51,999	62,775	(0)
	611,115	1,843	1,252,026	5,686,300		320,139		1,544,845	1,864,984	(0)

Sept 16 CIP Expenses Include: Projected CIP Expenses of $26,939, Financial Incentive for Activities performed in 2015 of $477,077, and Adjustment for Unapproved Rate of ($92,357)

Great Plains CIP Tracker 2016-2017
Assumptions: 2015 Financial Incentive Amortized over 12 months that it is recovered through the CCRA, CCRA set to September Book Scenario rate

Date	Beginning Balance	Carrying Charges	CIP Expenses	2015 Financial Incentive	Total Volumes	CCRC Rate	CCRC Recovery	CCRA Rate	CCRA Recovery	Total Recovery	Ending Balance
Sep-16	611,115	382	(65,418)	39,756.42	278,400	0.0563	15,674	0.2716785	75,635	91,309	494,526
Oct-16	494,526	309	19,003	39,756.42	515,100	0.0563	29,000	0.2716785	139,942	168,942	384,653
Nov-16	384,653	240	90,584	39,756.42	652,500	0.0563	36,736	0.2716785	177,270	214,006	301,228
Dec-16	301,228	188	148,732	39,756.42	803,700	0.0563	45,248	0.2716785	218,348	263,596	226,308
Jan-17	226,308	141	43,198	39,756.42	823,400	0.0563	46,357	0.2716785	223,700	270,057	39,347
Feb-17	39,347	25	28,886	39,756.42	734,600	0.0563	41,358	0.2716785	199,575	240,933	(132,919)
Mar-17	(132,919)	(83)	39,061	39,756.42	646,300	0.0563	36,387	0.2716785	175,586	211,973	(266,158)
Apr-17	(266,158)	(166)	38,016	39,756.42	418,900	0.0563	23,584	0.2716785	113,806	137,390	(325,942)
May-17	(325,942)	(204)	22,221	39,756.42	262,900	0.0563	14,801	0.2716785	71,424	86,226	(350,394)
Jun-17	(350,394)	(219)	29,266	39,756.42	177,000	0.0563	9,965	0.2716785	48,087	58,052	(339,642)
Jul-17	(339,642)	(212)	31,822	39,756.42	182,100	0.0563	10,252	0.2716785	49,473	59,725	(328,001)
Aug-17	(328,001)	(205)	349,578	39,756.42	191,400	0.0563	10,776	0.2716785	51,999	62,775	(1,647)
	611,115	196	774,949	477,077	5,686,300		320,139		1,544,845	1,864,984	(1,647)

Sept 16 CIP Expenses Include: Projected CIP Expenses of $26,939 and Adjustment for Unapproved Rate of ($92,357)

Great Plains CIP Tracker 2016-2017
Assumptions: 2015 Financial Incentive Booked in Sept, CCRA based on 12-Month Goal-Seek to Zero

Date	Beginning Balance	Carrying Charges	CIP Expenses	Total Volumes	CCRC Rate	CCRC Recovery	CCRA Rate	CCRA Recovery	Total Recovery	Ending Balance
Sep-16	611,115	382	411,659	278,400	0.0563	15,674	0.2716785	75,635	91,309	931,847
Oct-16	931,847	582	19,003	515,100	0.0563	29,000	0.2716785	139,942	168,942	782,490
Nov-16	782,490	489	90,584	652,500	0.0563	36,736	0.2716785	177,270	214,006	659,557
Dec-16	659,557	412	148,732	803,700	0.0563	45,248	0.2716785	218,348	263,596	545,105
Jan-17	545,105	341	43,198	823,400	0.0563	46,357	0.2716785	223,700	270,057	318,587
Feb-17	318,587	199	28,886	734,600	0.0563	41,358	0.2716785	199,575	240,933	106,739
Mar-17	106,739	67	39,061	646,300	0.0563	36,387	0.2716785	175,586	211,973	(66,106)
Apr-17	(66,106)	(41)	38,016	418,900	0.0563	23,584	0.2716785	113,806	137,390	(165,522)
May-17	(165,522)	(103)	22,221	262,900	0.0563	14,801	0.2716785	71,424	86,226	(229,630)
Jun-17	(229,630)	(144)	29,266	177,000	0.0563	9,965	0.2716785	48,087	58,052	(258,559)
Jul-17	(258,559)	(162)	31,822	182,100	0.0563	10,252	0.2716785	49,473	59,725	(286,624)
Aug-17	(286,624)	(179)	349,578	191,400	0.0563	10,776	0.2716785	51,999	62,775	(0)
	611,115	1,843	1,252,026	5,686,300		320,139		1,544,845	1,864,984	(0)

Sept 16 CIP Expenses Include: Projected CIP Expenses of $26,939, Financial Incentive for Activities performed in 2015 of $477,077, and Adjustment for Unapproved Rate of ($92,357)

Great Plains CIP Tracker 2016-2017
Assumptions: Financial Incentive Amortized over 12 months corresponding CCRA is in place, CCRA based on 12-month goal-seek to zero

Date	Beginning Balance	Carrying Charges	CIP Expenses	2015 Financial Incentive	Total Volumes	CCRC Rate	CCRC Recovery	CCRA Rate	CCRA Recovery	Total Recovery	Ending Balance
Sep-16	611,115	382	(65,418)	39,756.42	278,400	0.0563	15,674	0.271390	75,555	91,229	494,606
Oct-16	494,606	309	19,003	39,756.42	515,100	0.0563	29,000	0.271390	139,793	168,793	384,882
Nov-16	384,882	241	90,584	39,756.42	652,500	0.0563	36,736	0.271390	177,082	213,818	301,645
Dec-16	301,645	189	148,732	39,756.42	803,700	0.0563	45,248	0.271390	218,116	263,364	226,958
Jan-17	226,958	142	43,198	39,756.42	823,400	0.0563	46,357	0.271390	223,463	269,820	40,234
Feb-17	40,234	25	28,886	39,756.42	734,600	0.0563	41,358	0.271390	199,363	240,721	(131,820)
Mar-17	(131,820)	(82)	39,061	39,756.42	646,300	0.0563	36,387	0.271390	175,399	211,786	(264,871)
Apr-17	(264,871)	(166)	38,016	39,756.42	418,900	0.0563	23,584	0.271390	113,685	137,269	(324,533)
May-17	(324,533)	(203)	22,221	39,756.42	262,900	0.0563	14,801	0.271390	71,348	86,150	(348,908)
Jun-17	(348,908)	(218)	29,266	39,756.42	177,000	0.0563	9,965	0.271390	48,036	58,001	(338,105)
Jul-17	(338,105)	(211)	31,822	39,756.42	182,100	0.0563	10,252	0.271390	49,420	59,672	(326,410)
Aug-17	(326,410)	(204)	349,578	39,756.42	191,400	0.0563	10,776	0.271390	51,944	62,720	0
	611,115	203	774,949	477,077	5,686,300		320,139		1,543,205	1,863,344	0

Sept 16 CIP Expenses Include: Projected CIP Expenses of $26,939 and Adjustment for Unapproved Rate of ($92,357)

Great Plains CIP Tracker 2016-2017
Assumptions: 2015 Financial Incentive Booked in Sept, CCRA based on 12-Month Goal-Seek to Zero

Date	Beginning Balance	Carrying Charges	CIP Expenses	Total Volumes	CCRC Rate	CCRC Recovery	CCRA Rate	CCRA Recovery	Total Recovery	Ending Balance
Sep-16	611,115	382	411,659	278,400	0.0563	15,674	0.2716785	75,635	91,309	931,847
Oct-16	931,847	582	19,003	515,100	0.0563	29,000	0.2716785	139,942	168,942	782,490
Nov-16	782,490	489	90,584	652,500	0.0563	36,736	0.2716785	177,270	214,006	659,557
Dec-16	659,557	412	148,732	803,700	0.0563	45,248	0.2716785	218,348	263,596	545,105
Jan-17	545,105	341	43,198	823,400	0.0563	46,357	0.2716785	223,700	270,057	318,587
Feb-17	318,587	199	28,886	734,600	0.0563	41,358	0.2716785	199,575	240,933	106,739
Mar-17	106,739	67	39,061	646,300	0.0563	36,387	0.2716785	175,586	211,973	(66,106)
Apr-17	(66,106)	(41)	38,016	418,900	0.0563	23,584	0.2716785	113,806	137,390	(165,522)
May-17	(165,522)	(103)	22,221	262,900	0.0563	14,801	0.2716785	71,424	86,226	(229,630)
Jun-17	(229,630)	(144)	29,266	177,000	0.0563	9,965	0.2716785	48,087	58,052	(258,559)
Jul-17	(258,559)	(162)	31,822	182,100	0.0563	10,252	0.2716785	49,473	59,725	(286,624)
Aug-17	(286,624)	(179)	349,578	191,400	0.0563	10,776	0.2716785	51,999	62,775	(0)
	611,115	1,843	1,252,026	5,686,300		320,139		1,544,845	1,864,984	(0)

Sept 16 CIP Expenses Include: Projected CIP Expenses, 2015 Financial Incentive, and Adjustment for Unapproved Rate

Great Plains CIP Tracker 2017-2018
Assumptions: 2016 Financial Incentive Booked in Sept, CCRA based on 12-Month Goal-Seek to Zero

Date	Beginning Balance	Carrying Charges	CIP Expenses	Total Volumes	CCRC Rate	CCRC Recovery	CCRA Rate	CCRA Recovery	Total Recovery	Ending Balance
Sep-17	(0)	(0)	448,647	279,300	0.0563	15,725	0.173232	48,384	64,108	384,539
Oct-17	384,539	240	20,208	517,600	0.0563	29,141	0.173232	89,665	118,806	286,181
Nov-17	286,181	179	96,328	656,900	0.0563	36,983	0.173232	113,796	150,780	231,909
Dec-17	231,909	145	158,165	810,100	0.0563	45,609	0.173232	140,335	185,944	204,275
Jan-18	204,275	128	43,784	827,500	0.0563	46,588	0.173232	143,349	189,938	58,249
Feb-18	58,249	36	29,277	740,400	0.0563	41,685	0.173232	128,261	169,945	(82,384)
Mar-18	(82,384)	(51)	39,591	651,000	0.0563	36,651	0.173232	112,774	149,425	(192,269)
Apr-18	(192,269)	(120)	38,532	421,500	0.0563	23,730	0.173232	73,017	96,748	(250,605)
May-18	(250,605)	(157)	22,523	264,000	0.0563	14,863	0.173232	45,733	60,596	(288,835)
Jun-18	(288,835)	(181)	29,663	177,600	0.0563	9,999	0.173232	30,766	40,765	(300,118)
Jul-18	(300,118)	(188)	32,253	182,900	0.0563	10,297	0.173232	31,684	41,981	(310,034)
Aug-18	(310,034)	(194)	354,321	192,100	0.0563	10,815	0.173232	33,278	44,093	0
										0
	(0)	(162)	1,313,292	5,720,900		322,087		991,043	1,313,130	0

Sept 17 CIP Expenses Include: Projected CIP Expenses, 2016 Financial Incentive

2016-2017 CCRA ($/Mcf)	2016-2017 Average CIP Annual Bill ($)	2017-2018 CCRA ($/Mcf)	2017-2018 Average CIP Annual Bill ($)
0.271679	24.27	0.173232	16.99

Carrying Charges ($)	CCRA Recovery ($)	Total Recovery ($)	Aug 2017 Ending Balance ($)	Aug 2018 Ending Balance ($)
1,681	2,535,888	3,178,114	(0)	0

Great Plains CIP Tracker 2016-2017
Assumptions: 2015 Financial Incentive Booked in Sept, CCRA based on 24-Month Goal-Seek to Zero

Date	Beginning Balance	Carrying Charges	CIP Expenses	Total Volumes	CCRC Rate	CCRC Recovery	CCRA Rate	CCRA Recovery	Total Recovery	Ending Balance
Sep-16	611,115	382	411,659	278,400	0.0563	15,674	0.2224905	61,941	77,615	945,541
Oct-16	945,541	591	19,003	515,100	0.0563	29,000	0.2224905	114,605	143,605	821,530
Nov-16	821,530	513	90,584	652,500	0.0563	36,736	0.2224905	145,175	181,911	730,716
Dec-16	730,716	457	148,732	803,700	0.0563	45,248	0.2224905	178,816	224,064	655,841
Jan-17	655,841	410	43,198	823,400	0.0563	46,357	0.2224905	183,199	229,556	469,893
Feb-17	469,893	294	28,886	734,600	0.0563	41,358	0.2224905	163,442	204,800	294,273
Mar-17	294,273	184	39,061	646,300	0.0563	36,387	0.2224905	143,796	180,182	153,336
Apr-17	153,336	96	38,016	418,900	0.0563	23,584	0.2224905	93,201	116,785	74,662
May-17	74,662	47	22,221	262,900	0.0563	14,801	0.2224905	58,493	73,294	23,636
Jun-17	23,636	15	29,266	177,000	0.0563	9,965	0.2224905	39,381	49,346	3,571
Jul-17	3,571	2	31,822	182,100	0.0563	10,252	0.2224905	40,516	50,768	(15,373)
Aug-17	(15,373)	(10)	349,578	191,400	0.0563	10,776	0.2224905	42,585	53,361	280,835
	611,115	2,980	1,252,026	5,686,300		320,139		1,265,148	1,585,286	280,835

Sept 16 CIP Expenses Include: Projected CIP Expenses, 2015 Financial Incentive, and Adjustment for Unapproved Rate

Great Plains CIP Tracker 2017-2018
Assumptions: 2016 Financial Incentive Booked in Sept, CCRA based on 24-Month Goal-Seek to Zero

Date	Beginning Balance	Carrying Charges	CIP Expenses	Total Volumes	CCRC Rate	CCRC Recovery	CCRA Rate	CCRA Recovery	Total Recovery	Ending Balance
Sep-17	280,835	176	448,647	279,300	0.0563	15,725	0.2224905	62,142	77,866	651,791
Oct-17	651,791	407	20,208	517,600	0.0563	29,141	0.2224905	115,161	144,302	528,105
Nov-17	528,105	330	96,328	656,900	0.0563	36,983	0.2224905	146,154	183,137	441,625
Dec-17	441,625	276	158,165	810,100	0.0563	45,609	0.2224905	180,240	225,848	374,218
Jan-18	374,218	234	43,784	827,500	0.0563	46,588	0.2224905	184,111	230,699	187,537
Feb-18	187,537	117	29,277	740,400	0.0563	41,685	0.2224905	164,732	206,416	10,515
Mar-18	10,515	7	39,591	651,000	0.0563	36,651	0.2224905	144,841	181,493	(131,380)
Apr-18	(131,380)	(82)	38,532	421,500	0.0563	23,730	0.2224905	93,780	117,510	(210,441)
May-18	(210,441)	(132)	22,523	264,000	0.0563	14,863	0.2224905	58,737	73,601	(261,650)
Jun-18	(261,650)	(164)	29,663	177,600	0.0563	9,999	0.2224905	39,514	49,513	(281,664)
Jul-18	(281,664)	(176)	32,253	182,900	0.0563	10,297	0.2224905	40,694	50,991	(300,577)
Aug-18	(300,577)	(188)	354,321	192,100	0.0563	10,815	0.2224905	42,740	53,556	0
										0
	280,835	806	1,313,292	5,720,900		322,087		1,272,846	1,594,933	0

Sept 17 CIP Expenses Include: Projected CIP Expenses, 2016 Financial Incentive

2016-2017 CCRA ($/Mcf)	2016-2017 Average CIP Annual Bill ($)	2017-2018 CCRA ($/Mcf)	2017-2018 Average CIP Annual Bill ($)
0.222491	20.63	0.222491	20.63

Carrying Charges ($)	CCRA Recovery ($)	Total Recovery ($)	Ending Balance ($)	Aug 2018 Ending Balance ($)
3,786	2,537,994	3,180,219	280,835	0

State of Minnesota

DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Nonpublic [ ]
Public [x]

Utility Information Request

Docket Number: G004/M-16-384 Date of Request: 6/21/2016

Requested From: Great Plains Natural Gas Company Response Due: 7/1/2016

Analyst Requesting Information: Danielle Winner

Type of Inquiry:

[ ] Financial	[ ] Rate of Return	[ ] Rate Design
[ ] Engineering	[ ] Forecasting	[ ] Conservation
[ ] Cost of Service	[ ] CIP	[X] Other: CIP Tracker Projections

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
1	What are the projected CIP expenditures, carrying charges, recoveries, and beginning and ending balances, as presented in the CIP Tracker, for each of the next 24 months beginning in August 2016? Please provide data in excel spreadsheet if possible.

Response:

As discussed Docket No. G004/M-16-384, Great Plains proposed to amortize the estimated under-recovered CIP balance at August 31, 2016 over 24 months to minimize the rate impact to its customers.

See Attachment A for the projected CIP information.

Assumptions:

- The requested 2015 incentive award of $477,077 will be approved before September, 2016.
- The proposed CCRA rate of $0.0954 is effective September 1, 2016. For this analysis, the proposed CCRA rate is not changed after September 1, 2016.

Response by: Travis Jacobson

Title: Manager of Regulatory Analysis

Department: Regulatory Affairs

Telephone: 701-222-7855

List sources of information:

Books and records of the Company

- The 2016, 2017 and 2018 CIP expenditures equal the requested CIP budgets of $832,597, $885,396 and $897,408, respectively.
- Incentive award estimates for 2016 and 2017 are not included.
- Historically, a significant portion of Great Plains CIP expenditures are dependent on participation in the Custom Program as experienced in 2015. At this time, Great Plains does expect participation in the Custom Program during 2016 but is not aware of interest in 2017 or 2018. Therefore, the inclusion of the requested CIP budgets in 2017 and 2018 likely presents the upper level of the under-recovered balance over the time frame requested.

Response by: Travis Jacobson
Title: Manager of Regulatory Analysis
Department: Regulatory Affairs
Telephone: 701-222-7855

List sources of information:
Books and records of the Company

GREAT PLAINS NATURAL GAS CO.
CIP PROGRAM
2016 - 2018

Month	Beginning Balance	Carrying Charge 1/	Current Month Charges 2/	Billed Recovery CCRC	Billed Recovery CCRA	Billed Recovery Total	Ending Balance
December 2015							$241,428
January 2016	$241,428	$151	$40,622	$27,301	$13,070	$40,371	241,830
February	241,830	151	27,163	48,243	(6,614)	41,629	227,515
March	227,515	142	36,732	43,072	(5,913)	37,159	227,230
April - est.	227,230	142	35,749	23,432	(3,288)	20,144	242,977
May - est.	242,977	152	20,896	14,739	(2,068)	12,671	251,354
June - est.	251,354	157	27,521	9,931	(1,394)	8,537	270,495
July - est.	270,495	169	29,924	10,213	(1,433)	8,780	291,808
Aug. - est.	291,808	182	328,732	10,736	(1,507)	9,229	611,493
PROJECTED:							
2015 Incentive Award	$611,493		$477,077				$1,088,570
September 2016	1,088,570	$680	26,939	$15,674	$26,559	$42,233	1,073,956
October	1,073,956	671	19,003	29,000	49,141	78,141	1,015,489
November	1,015,489	635	90,584	36,736	62,249	98,985	1,007,723
December	1,007,723	630	148,732	45,248	76,673	121,921	1,035,164
January 2017	1,035,164	647	43,198	46,357	78,552	124,909	954,100
February	954,100	596	28,886	41,358	70,081	111,439	872,143
March	872,143	545	39,061	36,387	61,657	98,044	813,705
April	813,705	509	38,016	23,584	39,963	63,547	788,683
May	788,683	493	22,221	14,801	25,081	39,882	771,515
June	771,515	482	29,266	9,965	16,886	26,851	774,412
July	774,412	484	31,822	10,252	17,372	27,624	779,094
August	779,094	487	349,578	10,776	18,260	29,036	1,100,123
September	1,100,123	688	28,647	15,725	26,645	42,370	1,087,088
October	1,087,088	679	20,208	29,141	49,379	78,520	1,029,455
November	1,029,455	643	96,328	36,983	62,668	99,651	1,026,775
December	1,026,775	642	158,165	45,609	77,284	122,893	1,062,689
January 2018	1,062,689	664	43,784	46,588	78,944	125,532	981,605
February	981,605	614	29,277	41,685	70,634	112,319	899,177
March	899,177	562	39,591	36,651	62,105	98,756	840,574
April	840,574	525	38,532	23,730	40,211	63,941	815,690
May	815,690	510	22,523	14,863	25,186	40,049	798,674
June	798,674	499	29,663	9,999	16,943	26,942	801,894
July	801,894	501	32,253	10,297	17,449	27,746	806,902
August	$806,902	504	354,321	10,815	18,326	29,141	$1,132,586
		$13,890	$2,237,675	$642,224	$1,088,248	$1,730,472	

1/ Carrying charge updated to reflect the two-year U.S. Treasury bond interest rate on April 18, 2016 of 0.75%.
2/ Reflect proposed CIP Program total portfolio costs for 2016, 2017 and 2018 of $832,597, $885,396 and $897,408, respectively. Monthly allocation based on 2016.

GREAT PLAINS NATURAL GAS CO.
CIP PROGRAM
DK VOLUMES
PROJECTED APRIL 2016 THROUGH AUGUST 2018

	Total Volumes 1/	CCRC	CCRA
April 2016	416,200	$23,432	($3,288)
May	261,800	14,739	(2,068)
June	176,400	9,931	(1,394)
July	181,400	10,213	(1,433)
August	190,700	10,736	(1,507)
September	278,400	15,674	26,559
October	515,100	29,000	49,141
November	652,500	36,736	62,249
December	803,700	45,248	76,673
January 2017	823,400	46,357	78,552
February	734,600	41,358	70,081
March	646,300	36,387	61,657
April	418,900	23,584	39,963
May	262,900	14,801	25,081
June	177,000	9,965	16,886
July	182,100	10,252	17,372
August	191,400	10,776	18,260
September	279,300	15,725	26,645
October	517,600	29,141	49,379
November	656,900	36,983	62,668
December	810,100	45,609	77,284
January 2018	827,500	46,588	78,944
February	740,400	41,685	70,634
March	651,000	36,651	62,105
April	421,500	23,730	40,211
May	264,000	14,863	25,186
June	177,600	9,999	16,943
July	182,900	10,297	17,449
August	192,100	10,815	18,326

CCRC	
Eff. January 1, 2016	$0.0563
CCRA	
Eff. January 1, 2016	($0.0079)
Eff. Sept. 1, 2016	$0.0954

1/ Excludes projected throughput for CIP-exempt customers.

State of Minnesota

DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Nonpublic [ ]
Public [X]

Utility Information Request

Docket Number: G004/M-16-384 Date of Request: 7/5/2016

Requested From: Great Plains Natural Gas Company Response Due: 7/15/2016

Analyst Requesting Information: Danielle Winner

Type of Inquiry:

[ ] Financial	[ ] Rate of Return	[ ] Rate Design
[ ] Engineering	[ ] Forecasting	[ ] Conservation
[ ] Cost of Service	[X] CIP	[ ] Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
2	Reference: CIP Projections What are the estimated CIP DSM Financial Incentives that Great Plains Natural Gas expects to receive both in 2017 (for 2016 activities) and in 2018 (for 2017 activities)? Please estimate 2018 figure by using the new Financial Incentive calculation. **Response:** Great Plains estimates a CIP DSM Financial Incentive of $420,000 to be received in 2017 (for 2016 activities). This estimate is based primarily on custom projects that are expected to produce savings of approximately 45,000 decatherms, with other prescriptive program results similar to 2015. Great Plains estimates a CIP DSM Financial Incentive of $115,000 to be received in 2018 (for 2017 activities). This estimate is based on the new Financial Incentive calculation, utilizing the 2017 budget from the 2017-2019 CIP Triennial Filing (submitted June 1, 2016) and achieving 0.7% of sales, the minimum achievement level for an incentive payout.

Response by: Travis Jacobson

Title: Manager of Regulatory Analysis

Department: Regulatory Affairs

Telephone: 701-222-7855

List sources of information:

Table 1: A History of Great Plains Natural Gas's DSM and CIP Activities (2010-2015)[1]

	2010	2011	2012	2013	2014	2015	2016
DSM financial incentive	18,915	37,707	114,763	24,137	42,180	477,077	
Incentive as % of CIP expenditures	4.4%	10.2%	28.6%	6.4%	12.9%	65.8%	
Carrying charges	(7,527)	10,979	24,008	27,097	9,732	(1,094)	
Carrying charges as % of CIP expenditures	-1.8%	3.0%	6.0%	7.2%	3.0%	-0.2%	
Year-end tracker balance	52,659	324,363	369,299	397,382	(49,755)	241,051	
Year-end tracker bal. as % of CIP expenditures	12.3%	87.5%	91.9%	104.9%	-15.2%	33.3%	
CIP expenditures (excluding incentives)	427,847	370,570	401,694	378,793	327,380	724,644	
Achieved energy savings (Dth)	17,426	24,604	41,509	14,969	19,788	69,393	
Average cost per Dth saved (excludes incentives)	24.55	15.06	9.68	25.31	16.54	10.44	
Source: Great Plains' annual CIP Filings							
	10-418	11-404	12-439	13-334	14-358	15-422	16-384

[1] These figures are as initially proposed by Great Plains Natural Gas and are not adjusted for later decisions.

MINNESOTA DEPARTMENT OF COMMERCE

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August 8, 2016

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G004/M-16-384

Dear Mr. Wolf:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

> Great Plains Natural Gas Company's 2015 Conservation Improvement Program Status Report and CIP Tracker and Demand Side Management Incentive (*Petition*).

The *Petition* was filed on May 2, 2016 by:

> Tamie A. Aberle
> Director of Regulatory Affairs
> Great Plains Natural Gas Co.
> 400 North Fourth Street
> Bismarck, ND 58501

As discussed in greater detail in the attached *Comments*, the Department requests further information from Great Plains, and will provide final recommendations after reviewing Great Plains' reply comments. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ DANIELLE WINNER
Rates Analyst

DW/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G004/M-16-384

I. SUMMARY OF THE UTILITY'S FILING

On May 2, 2016, Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company), submitted its 2015 Conservation Improvement Program Status Report and CIP Tracker and Demand Side Management Incentive (*Petition*) to the Minnesota Public Utilities Commission (Commission, MPUC, or PUC). The Company's *Petition* included:

- a proposed 2015 Demand Side Management (DSM) financial incentive of $477,077;
- a report of proposed recovery and expenditures in its Conservation Improvement Program (CIP) tracker account during 2015; and
- a proposed change to the Conservation Cost Recovery Adjustment (CCRA).

In addition, Sections I and II of the Petition contained the Company's *2015 Conservation Improvement Program Status Report* (*Status Report*) for the period January 1, 2015 through December 2015. The *Status Report* is intended to fulfill the requirements of the Minnesota Department of Commerce, Division of Energy Resources' annual CIP reporting rules contained in Minnesota Rules part 7690.0500. Since the Company's *Status Report* does not require Commission approval, this portion of the *Petition* has been assigned a separate docket number.[1]

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) provides its analysis and recommendations below.

[1] See Docket No. G004/CIP-12-573.03.

II. COMMISSION'S 2015 ORDER AND COMPANY'S 2015 RATE CASE

On August 31, 2015, the Commission issued its Order in Docket No. G004/M-15-422 approving Great Plains' DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved Great Plains' proposed 2014 DSM financial incentive of $42,180 to be included in the Company's CIP tracker account no sooner than the issue date of this Order.
2. Approved the CIP tracker activity and end of 2014 tracker balance as shown in Table 1 of the Department's July 1, 2015 Comments.
3. Approved the Great Plains' revised proposed CCRA of $0.0225 per Dth for all customer classes and require that the CCRA approved by the Commission to be effective in the billing month immediately following the issue date of this Order, conditioned on the Company submitting, within 10 days of this Order, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations.
4. Required Great Plains, in future petitions for approval of its CIP Tracker and demand side management incentive, to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate as of the time the Company is preparing the petition.
5. Required Great Plains to include the following bill message in the billing month immediately following the date of this Order:

   > Great Plains recovers the costs changes in its energy conservation programs from the base established though a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of $0.0225 per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

On September 8, 2015, Great Plains filed an updated tariff page to reflect the approved recovery rate. The Department filed a compliance sign-off form on September 25, 2015. Great Plains' proposed rate went into effect October 1, 2015.

On September 30, 2015, the Company filed a General Rate Case, Docket No. G004/GR-15-879. The Company increased its Conservation Cost Recovery Charge (CCRC) by $0.0304, from $0.02590 to an interim rate of $0.0563. To account for this increase, the Company decreased its CCRA by $0.0304, from $0.0225 to ($0.0079). The new interim rates went into effect January 1, 2016.

III. THE DEPARTMENT'S ANALYSIS

The Department's analysis of Great Plains' *Petition* is provided in the following sections:

- in Section III.A, Great Plains' proposed 2015 DSM financial incentive;
- in Section III.B, Great Plains' proposed 2015 CIP tracker account;
- in Section III.C, Great Plains' proposed gas Conservation Cost Recovery Adjustment; and
- in Section III.D, a review of Great Plains' CIP activities for the period 2009 through 2015.

A. GREAT PLAINS' PROPOSED 2015 DSM FINANCIAL INCENTIVE

1. Background and Summary of Great Plains' Proposed 2015 DSM Financial Incentive

The Shared Savings DSM financial incentive plan was approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010. On December 20, 2012 the Commission issued its *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives* (Modification Order). The Shared Savings approach emphasizes a 1.5 percent energy savings goal, and ties the incentive earned by the utility to pursuit of the 1.5 percent savings goal. The incentive mechanism sets a specific dollar amount per unit of energy saved that each utility will earn at energy savings equal to 1.5 percent of annual non-CIP-exempt retail sales. That dollar amount is referred to as the incentive calibration. The higher the calibration, the higher the incentive will be at all energy savings levels; however, the incentive calibration does not take effect until a specified savings threshold is reached. Each electric utility's incentive is calibrated so that when the utility achieves energy savings equal to 1.5 percent of retail sales, electric utilities will earn an incentive equal to $0.07 per kWh saved and gas utilities will earn $9 per thousand cubic feet (Mcf) saved. The Commission's Modification Order stated, in part:

> *The Commission hereby adopts the Department's proposal for the continuation of the new shared savings financial incentive with the following:*
>
> A. A threshold set at half of the utility's average achievements from 2007 to 2011 for utilities with triennial CIPs beginning in 2013, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest. For utilities with triennial Conservation Improvement Programs beginning in 2014, the threshold shall be set at half of the utility's average achievements from 2008 to 2012, removing both the maximum and minimum

achievements, or at 0.4 percent of retail sales, whichever is lowest.

B. The calibration at 1.5 percent of retail sales for each utility set as follows: (1) $9.00 per Mcf for natural gas utilities, and (2) $0.07 per kWh for electric utilities.
C. A utility may not modify its incentive to correct for non-linear benefits.
D. The incentive shall be capped at 20 percent of net benefits for all utilities except for Minnesota Power. The Commission will defer a decision on the application of the 20 percent cap of net benefits for Minnesota Power until 2013 to allow for the consideration of updated avoided cost information for this utility.
E. The existing cap of 125 percent of a utility's 1.5 percent calibration level for the electric utilities ($0.0875 per kWh) and a cap of 125 percent of the 1.0 percent target calibration for gas utilities ($6.875) per Mcf are continued.
F. The percentage of net benefits to be awarded to each utility at different energy savings levels will be set at the beginning of each year.
G. The CIP-Exempt Class shall not be allocated costs for the new shared savings incentive. Sales to the CIP-Exempt Class shall not be included in the calculation of utility energy savings goals.
H. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.
I. If a utility elects to include a third-party project, the project's net benefits and savings will be included in calculation of the percentage of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post CIP year calculations of net benefits and energy savings achieved and incentive awarded. In any case, the energy savings will count toward the 1.5 percent savings goal.
J. The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive, but will not change the percent of net benefits awarded at different energy savings levels.
K. The costs of any mandated, non-third-party projects (*e.g.*, Next Generation Energy Act assessment, University of Minnesota Institute for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits awarded at specific energy savings levels

(calculated before the CIP year begins) and in the post-CIP year calculations of net benefits and energy savings achieved and incentive awarded.

L. Costs, energy savings, and energy production from Electric Utility Infrastructure Projects (EUIC), solar installation and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.
M. The Department shall file a recommendation with the Commission on the application of a net benefits cap for Minnesota Power's incentive by October 1, 2013. The recommendation should be filed in Docket No. E,G-999/CI-08-133.
N. No adjustment will be made at this time to the calibration of the incentive mechanism for utilities that have Commission approved decoupling mechanisms.
O. The new shared savings DSM incentive shall be in operation for the length of each utility's triennial CIP plan.

Further, the Commission approved a net benefits cap of 30 percent for Minnesota Power on November 19, 2013.

With respect to net benefits, Great Plains provided in its *Petition* the benefit-cost results of the revenue requirements test associated with the Company's 2015 CIP. According to the Company, Great Plains' 2015 CIP activities resulted in an estimated $3,048,866 of net benefits before the requested incentive.[2] Great Plains also stated that its CIP activities achieved energy savings in 2015 of 69,393 dekatherms (Dth).[3] Based on the terms and conditions of its approved DSM incentive plan, Great Plains requested approval of a 2015 financial incentive of $477,077.

2. *The Department's Review of Great Plains' Proposed 2015 DSM Financial Incentive*

In Docket No. G004/CIP-12-573, the Department's CIP Engineering Staff reviewed Great Plains' CIP Status Report and recommended approval of the Company's claimed demand and energy savings. In that same docket, the Deputy Commissioner of the Department approved Great Plains' claimed savings on July 29, 2016. Thus, in the present docket, the Department based its analysis on the Great Plains' approved savings level of 69,393 Dth.

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[2] *Petition*, Attachment F. To get the percentage of net benefits achieved, calculate number of "steps" from the zero point to the 1.5% savings goal (12.46), and adjust that number by the multiplier (1.36562).
[3] The Department notes that the Company uses dekatherms, denoted dk in Company filing, rather than thousand cubic feet.

The Department notes that 69,393 Dth of energy savings equates to 1.246 percent of the Company's reported average non-CIP-exempt retail sales of 5,570,068 Dth.[4] Great Plains calculates that it receives approximately 1.36562 percent of the net benefits created by its 2015 CIP investments for every 0.1 percent of sales saved above zero.[5] This yields a figure of 17.01337 percent of net benefits achieved, for a total incentive of $518,715. However, this incentive produces a cost per savings of $7.475/Dth, violating the approved $6.875/Dth saved cap. Thus, the Company has proposed a financial incentive of $477,077, based on multiplying savings achieved by the $/Dth saved cap. This figure equates to 15.65 percent of net benefits achieved.

The Department verified the calculation of the financial incentive and recommends that the Commission approve Great Plains' proposed 2015 DSM financial incentive of $477,077 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket.

B. GREAT PLAINS' 2014 CIP TRACKER ACCOUNT

In its *Petition*, Great Plains requested approval of its report on recoveries and expenditures in the Company's CIP tracker account during 2015. Table 1 provides a summary of these activities.

Table 1: Summary of Great Plains' CIP Tracker Account in 2015[6]

Description	Time Period	Amount
Beginning Balance	January 1, 2015	($49,755)
CIP Expenditures[7]	January 1 through December 31, 2015	$724,644
Recovery via Base Rates (CCRC)	January 1 through December 31, 2015	($139,898)
Recovery via CCRA	January 1 through December 31, 2015	($359,163)
Carrying Charges[8]	January 1 through December 31, 2015	($717)
2013 DSM Financial Incentive	January 2015	$24,137
2014 DSM Financial Incentive	August 2015	$42,180
Ending Balance (Over)/Under	December 31, 2015	$241,428

[4] Average sales are based on the three-year average of non-CIP-exempt retail sales from 2009-2011. This figure was approved as part of the utility's 2015 CIP Incentive Mechanism Plan filing in Docket No. G004/M-15-108.
[5] *Petition*, Attachment F.
[6] *Petition*, Attachment E, pages 2-3.
[7] The Company's CIP Tracker lumps the financial incentive in with the CIP Expenditures. CIP Expenditures also include Next Generation Energy Act of 2007 (NGEA) assessments of $19,101 and miscellaneous expenses of $1,299 (*Petition*, pages 10-11).
[8] The Company's 2015 CIP Tracker Account was over-recovered for the majority of the year, and so total annual carrying charges accrued in the favor of ratepayers.

The Company's CIP Tracker reflects the Commission's 2013 DSM financial incentive of $24,137 and 2014 DSM financial incentive of $42,180. As such, Great Plains reported CIP Expenditures of $790,691, with the figure including both DSM financial incentives.

In the past, Great Plains and other utilities used their allowed rates of return to calculate carrying charges. This was changed when the Commission directed utilities to begin using the short-term cost of debt established in their most recent rate case. Great Plains had not established a short-term cost of debt in its latest rate case, so the Commission directed Great Plains to use the interest rate of the two-year Treasury bond. The Commission's December 17, 2014 Order in Docket No. G004/M-14-439 states:

> The Commission modifies the carrying charge on the CIP tracker-account balance to the October 29, 2014 U.S. two-year U.S. Treasury Bond rate. This change shall become effective in the month following the date of this order.

The interest rate on October 29, 2014 was 0.48%. The Company used this rate, divided by 12, to calculate their monthly interest factor in their 2014 CIP Tracker, which was approved by the Commission.[9] The Commission also directed the Company, in future CIP Tracker filings, to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate as of the time the Company is preparing the petition.

In its 2015 CIP Tracker, the Company continued to use the October 29, 2014 two-year U.S. Treasury Bond rate, and by doing so failed to comply with the Commission's directive to update the interest rate to reflect the two-year U.S. Treasury bond interest rate at the time of preparation. However, in emails with the Department, the Company stated that this was simply an oversight and agreed to update the carrying charge rate to 0.75%, the two-year U.S Treasury Bond rate as of April 18th, 2016. If the updated rate were used, the Company estimates an increase in carrying charges of $377, for a total of $1,094 to be paid back to ratepayers. The Department verified the Company's calculations in Attachment A of the attached spreadsheet, and concludes that they accurately reflect the updated carrying charge rate.[10] A corrected summary of Great Plains' 2015 CIP Tracker is provided in Table 2 below:

[9] Commission Order, August 31, 2015, Docket No. G004/M-15-422.
[10] The Department calculated a total increase of $1,096 paid back to ratepayers, but concludes that the difference is likely due to rounding error. In Table 2, as well as in Attachment B, the Department used the Company's numbers.

Table 2: Summary of Great Plains' CIP Tracker Account in 2015, Updated to reflect the Appropriate Two-Year U.S. Treasury Bond Interest Rate

Description	Time Period	Amount
Beginning Balance	January 1, 2015	($49,755)
CIP Expenditures	January 1 through December 31, 2015	$724,644
Recovery via Base Rates (CCRC)	January 1 through December 31, 2015	($139,898)
Recovery via CCRA	January 1 through December 31, 2015	($359,163)
Carrying Charges	January 1 through December 31, 2015	($1,094)
2013 DSM Financial Incentive	January 2015	$24,137
2014 DSM Financial Incentive	August 2015	$42,180
Ending Balance (Over)/Under	December 31, 2015	$241,051

The Department also notes that Great Plains filed a general rate case August 3, 2015 in Docket No. G004/GR-15-879 that includes a proposed short-term cost of debt. The Department expects that by time the Company's annual CIP Tracker is filed next year, a final short term cost of debt will have been approved by the Commission. Therefore, the Department recommends that the Commission require Great Plains to use the approved short-term cost of debt as the CIP Tracker carrying charge beginning with its 2017 CIP Tracker filing.

The Department recommends that the Commission approve Great Plains' 2015 CIP Tracker account activity, as modified to reflect the April 18, 2016 two-year U.S Treasury Bond interest rate as shown in Attachment A to these comments and summarized in Table 2 above. The Department also recommends that the Commission direct the Company to use the short term cost of debt that will be approved by the Commission in Docket No. G004/GR-15-879 to calculate carrying charges going forward.

C. GREAT PLAINS' CONSERVATION COST RECOVERY ADJUSTMENT

1. Great Plains' Proposed CCRA

Minnesota Law states in relevant part that the Commission "may permit a public utility to file rate schedules for annual recovery of the cost of energy conservation improvements."[11] This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment (CCRA).

[11] See Minn. Stat. §216B.16, subd. 6b(c).

In its *Petition*, Great Plains requested approval of a revised CCRA of $0.0954 per Dth, an increase of $0.1033 from the current CCRA of ($0.0079).[12] The proposed CCRA was derived by assuming recovery of a total of $1,088,570 through the CCRA over a 24-month period. The Company stated that as a result of the CCRA increase, the average residential customer using 74 Dth per year would pay a total annual CIP cost of $11.23, a $7.65 increase from the current total annual CIP cost of $3.58.[13]

The Company noted that the increase in the CCRA was due primarily to three factors:

- During 2015, the Company's expenses exceeded its collections, resulting in a large unrecovered balance of $241,248 at the end of December, 2015;
- The 2015 financial incentive is much higher than in previous years as a result of the Company's gains in energy saved; and
- Great Plains expects to spend a majority of its budgeted expenses during 2016.

To mitigate the effect of increasing the CCRA, the Company proposed amortizing its recovery over a 24-month period, rather than a 12-month period.

2. The Department's Review of Great Plains' Proposed CCRA

The Department takes issue with two components of GPNG's filing: Great Plains' decision to charge a CCRA not approved by the Commission, and Great Plains' methodology used in calculating the CCRA. These issues are each discussed in further detail below.

a. Charging a CCRA not Approved by the Commission

The Department notes that what Great Plains characterized as the current CCRA of ($0.0079) is not the CCRA approved by the Commission in Docket No. G004/M-15-422. As was discussed above, Great Plains decreased its approved CCRA as of January 1, 2016 (when interim rates went into effect during the Company's ongoing rate case) commensurate with the increase in the CCRC. Great Plains' justification for adjusting its approved CCRA is unclear. Minnesota Stat. § 216B.16 states that "no public utility shall change a rate which has been duly established under this chapter, except upon 60 days' notice to the commission." It is conceivable that Great Plains considers the CCRA combined with the CCRC as a single rate for the purposes of CIP cost recovery.

However, the Department considers the CCRA and CCRC as separate rates. The CCRA is listed in the Company's tariff and is adjusted annually after Commission review and approval. Therefore Great Plains has been charging an un-tariffed, unapproved rate since January 1, 2016, in violation of statute. The Department also notes that had Great Plains

[12] See *Petition*, Attachment E, Page 1.
[13] Total estimated annual CIP costs include both CCRC and CCRA charges. *Petition,* Attachment E, Page 1.

continued to charge the approved CCRA, the under-recovery projected by the Company would not be so large.

The Department has calculated the difference between recoveries and carrying charges resulting from the unapproved CCRA, versus those that would have occurred had the CCRA been left at its approved value of $0.0225 per Dth. The Department's calculations used actual and projected numbers provided by the Company, and also used the updated carrying charge rate. The results can be found in Attachment B, and are summarized in Table 2 below.

Table 3: Effects of Great Plains' Unapproved Rate Implementation, January-August 2016

	Unapproved Rate	Approved Rate	Unapproved-Approved Difference
CCRA Rate ($/Dth)	(0.0079)	0.0225	
CIP-Applicable Sales Volumes charged at Unapproved Rate Jan-Aug 2016 (Dth)	3,687,017	3,687,017	
Carrying Charge ($)	1,245	993	252
CCRA Recovery ($)	(9,147)	82,958	(92,105)
Total Impact[14]			**92,357**

Table 3 shows that the Company over-recovered $252 in carrying charges and under-recovered $92,105 in the CCRA. Had the Company been using the approved rate all along, the beginning tracker balance as of September 2016 would be $518,758, or $92,357 less than the Company's current September 2016 balance of $611,115.[15]

The Department notes that the information in Table 2 is based on estimates beginning in April 2016; therefore, the Department requests that, in its reply comments, Great Plains update the information in the Department's Attachment B using the correct carrying charge rate and approved CCRA. The revised and updated information should be used to calculate the Company's CCRA. The Department will provide a final recommendation after reviewing Great Plains' reply comments.

[14] In its CIP Tracker, Great Plains reports both CCRC and CCRA recovery as positive numbers, then subtracts total recovery from total expenses. The Department used this same trend here, although doing so reverses the sign of the total CCRA Recovery. To account for this in Table 3, the Department added the absolute value of CCRA Recovery to Carrying Charges in Table 2. The full impact forecast can be found in Attachment B.
[15] This figure reflects the Company's tracker balance using the updated carrying charge rate for January 2015-August 2016, the derivation of which can be found in Attachments A and B.

b. Great Plains' CCRA Methodology

As the Department noted last year, the CCRA is intended to capture three things:

1) the tracker balance at the beginning of the current year;
2) the current year's financial incentive, which reflects the previous year's activities; and
3) the projected CIP expenses, not otherwise recovered by the CCRC, for the time in which the proposed CCRA is in effect.[16]

Put another way, the CCRA should not only account for previous CIP activities, but should account for upcoming CIP activities as well. As a forward-looking true-up, rather than a backwards-looking one, the CCRA is meant to help utilities recover costs closer to the time expenses are incurred. This helps utilities maintain a tracker balance closer to zero, mitigate carrying charges, and plan for CIP expense fluctuations.

Of the above items, Great Plains' CCRA methodology adequately accounts for item #1, inadequately accounts for #2, and does not account for item #3. The appropriate methodologies for #2 and #3 are discussed in greater detail below.

#2: Treatment of the Financial Incentive in the Calculation of the CCRA

To account for the proposed financial incentive of $477,077, the Company tacks this figure onto the projected year-end August 31 tracker balance. This means that when calculating the CCRA, the financial incentive is not booked within a particular month. In reality, typically the financial incentive gets booked in the month following Commission approval, meaning that carrying charges do accrue on the financial incentive. By assuming that the CCRA is not booked until year-end, the Company is failing to account for future carrying charges that will accrue on the financial incentive, and thus is inadequately predicting costs the CCRA is meant to recover.

The Department recommends that the Company use a CCRA calculation methodology that adequately accounts for carrying charges associated with the financial incentive.

The Department also notes that in the interest of minimizing carrying costs, significant reductions could be achieved by booking 1/12 of the financial incentive each month over the recovery year, rather than in a single month subsequent to Commission approval.

To demonstrate the difference, the Department uses the Company's projected 2016-2017 CIP tracker and currently proposed financial incentive as an example. This projection accounts for the updated carrying charge rate, and both scenarios assume the same CCRA

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[16] See page 7 of the Department's Comments filed July 1, 2015 in Docket No. G004/M-15-422.

rate. The following table shows these differences, with backing documentation available in Attachment C.

Table 4: Comparison of Carrying Charges and Ending Balances for a Financial Incentive Booked in September versus amortized over its 12-month recovery period, using the same CCRA

	Sept Book	Amortized Book
Carrying Charge ($)	1,843	196
August 2017 Ending Balance ($)	0	(1,647)

The Department concludes that under the exact same CIP tracker scenario, a change in the booking of the financial incentive would result in $1,647 in savings to ratepayers from reduced carrying charges.

The results of Table 4 appear to indicate that booking the financial incentive over 12 months may impact the CCRA calculation. Therefore, the Department analyzed the two scenarios with the goal of moving towards a tracker balance of zero in 12 months, in order to test the potential impact on the CCRA to see whether further savings to ratepayers would be achieved. The result of this analysis is that if both the “Sept book” scenario and the “amortized book” scenario set the CCRA at a rate that zeros out the tracker in 12 months, the “amortized book” scenario results in a lower CCRA. This comparison gives a more complete picture of the true costs associated with a one-month book. More in-depth projections can be found in Attachment C1.

Table 5: Comparison of Carrying Charges, CCRA Rates and Recoveries, and Ending Balances for a Financial Incentive Booked in September versus amortized over its 12-month recovery period

	Sept Book	Amortized Book	Sept Book-Amortized Book Difference
CCRA Rate ($/Dth)	0.2716785	0.2713900	0.0002885
Carrying Charge ($)	1,843	203	1,647
Total CCRA Recovery ($)	1,544,845	1,543,205	1,640
August 2017 Ending Balance ($)	0	0	0

From these projections, the Department concludes that booking the financial incentive over the amortized period of its recovery would result in ratepayer savings of $1,647 in carrying charges and $1,640 in CCRA recovery, for a total ratepayer savings of $3,287.

The Department notes that smoothing the booking of the financial incentive over the year would affect neither the amount nor the timing of the utility's recovery of the financial incentive; the financial incentive would still be recovered in exactly the same fashion through the CCRA. Rather, booking the financial incentive "expense" over the same time period that it is recovered through the CCRA appears to reduce carrying costs charged to ratepayers.

The Department requests that the Company provide in reply comments its view on whether the Financial Incentive should be booked in a single month upon approval, or amortized over the year of its recovery through the CCRA.

#3: Treatment of Projected Expenses in the Calculation of the CCRA

In its calculation of the CCRA, the Company failed to account for projected CIP expenses not recovered by the CCRC. In its current methodology, the Company's proposed CCRA reflects only past under-recoveries rather than a projection of future costs. This is not only different from the standard methodology used by other utilities, but it also means that the Company begins recovering costs one full year behind the time they were incurred.

When the Department addressed this issue in the Company's CCRA filing last year, it noted: "By omitting the expected CIP expenses to be incurred during the period the proposed CCRA will be in effect from the CCRA calculation, Great Plains' [sic] is implicitly relying solely on its

CCRC revenue to cover its projected CIP expenses. This will likely result in a significant deficit in Great Plains' next CIP tracker filing."[17] Great Plains agreed with the Department, and adjusted its proposed CCRA accordingly.[18] As noted above, the Commission approved the revised CCRA of $0.0255 per Dth, based on using the forward-looking methodology.

This year, Great Plains proposed a CCRA based on expected CIP expenses through August 2016, again ignoring the expected expenses through August 2017. Even with the newly established interim CCRC rates, the Company will not come close to recovering projected CIP expenses, as shown the following table:

Table 6: Actual and Projected CIP Expenses and CCRC Recoveries, 2013-2018[19]

"Year End" Date	CIP Expenses (Excluding Incentive)	CCRC Recoveries	Percentage of Expenses Covered by CCRC
August 31, 2013	338,714	Approx. 140,000	41.3%
August 31, 2014	431,049	Approx. 140,000	32.5%
August 31, 2015	459,083	145,145	31.6%
August 31, 2016 (April-Aug estimated)	1,039,363	231,283	22.3%
August 31, 2017 (estimated)	867,306	320,139	36.9%
August 31, 2018 (estimated)	893,292	322,087	36.1%

This gap between expenses and recoveries means that the year-end tracker balance has gotten larger over time. Table 7 shows this trend.

[17] Department Comments Filed July 1, 2015, Docket No. G004/M-15-422, Page 7.

[18] Last year the Company was able to predict expenses with a better degree of certainty than usual, and re-submitted its filing using projected expenses. See Page 9 of Department Comments submitted July 1, 2015 in Docket No. G004/M-15-422.

[19] These figures come from previous years' Great Plains Tracker filings, as well as Great Plains' responses to Department Information Requests in the present docket, which can be found in Attachment E.

Table 7: Actual and Projected CIP Tracker Ending Balances as of August 31, Including Projected Financial Incentives[20]

Year	Aug 31 Tracker Balance (Including Incentive)
2010	($75,092)
2011	$157,400
2012	$276,568
2013	$298,349
2014	$33,206
2015	$241,051
2016 (April-August figures estimated)	$1,088,570
2017 (estimated)	$1,520,123
2018 (estimated)	$1,247,586

Using Great Plains' current methodology, in September 2018 the Company will *start* recovery of their projected August 2018 Tracker Balance of $1,247,586. While acknowledging that the Company's projections may be rough estimates, the Department is concerned about the Company's strategy for recovering increased expenses. In last year's filing, the Department noted that the Company does not like to project CIP expenses because it has a large number of custom projects and does not wish to over-collect if those projects fail to go through. However, the variability of the Great Plains' CIP activities should not excuse the Company from attempting to project expenses.

Finally, last year the Commission approved a CCRA that was based upon the updated methodology that includes consideration of the CIP expenses expected to be incurred over the recovery period. Therefore, the Department recommends that the Commission require Great Plains, in future filings, to calculate the CCRA based on the projected sales, expenditures, and any needed adjustments occurring over the period the CCRA will be in place.

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[20] These figures come from previous years' Great Plains Tracker filings, as well as Great Plains' responses to Department Information Requests in the present docket. Projected figures do not include the adjustments for the unapproved rate, or updated carrying charge rate. The figures also reflect projected financial incentives; the Company clarified in emails with the Department that the projected financial incentives were not included in the Company's 2016-2018 CIP projections provided in response to DOC Information Request No. 1. CIP projections and financial incentive estimates are included in Attachment E.

3. 12-Month or 24-month Recovery Period

As noted above, Great Plains' proposed CCRA requests a 24-month amortization period for $1,088,570, which reflects the August 2016 tracker balance of $611,493 and the proposed financial incentive of $477,077. Given the multiple concerns discussed above, and in order to assist the Company in implementing a preferred CCRA methodology, the Department has calculated an alternative using the Company's projected CIP spending, natural gas sales, and financial incentives for activities in 2015 and 2016. The information provided by the Company can be found in Attachment E, and all background CIP Tracker documentation for the two scenarios can be found in Attachments D and D1.

The Department has calculated two alternative CCRAs, one based on a 12-month amortization schedule, and one based on a 24-month amortization schedule. Each of the two scenarios account for the following: the use of correct U.S. Treasury Bond Rate at the time of the Company's filing, the Department's calculated adjustment as a result of the Company's unapproved rate implementation, and the Department's recommended treatment of projected expenses. In its calculations, the Department used interim CCRC rates, which the Company expects to be similar to final CCRC rates, and assumed the financial incentives would be booked in September. Table 8 does not reflect a change in the carrying charge rate to reflect the rate that will be approved in the Company's pending rate case. The following table summarizes the results:[21]

Table 8: Comparison of CCRA scenarios, calculated with 12-month versus 24-month amortization schedules

	12-month	24-month
2016-2017 CCRA ($/Dth)	0.2716785	0.2224905
2017-2018 CCRA ($/Dth)	0.173232	0.2224905
2016-2017 Average CIP Annual Bill, both CCRA and CCRC ($)	24.27	20.63
2017-2018 Average CIP Annual Bill, both CCRA and CCRC ($)	16.99	20.63
Total Carrying Charges ($)	1,681	3,786
Total CCRA Recovery ($)	2,535,888	2,537,994

[21] See Attachment D for 12-month amortization projection and Attachment D1 for 24-month amortization projection.

In each scenario, the average ratepayer pays \$41.26 in total CIP costs over the full two-year period. Under the 24-month scenario, the Company earns an additional \$4,211 through carrying charges and CCRA recovery.

In general, a 12-month amortization period is the preferred scenario, with a goal of a zero-ending tracker balance at the Company's year-end of August 31. However, given the large rate hike that ratepayers are likely to experience in the switch to a forward-looking methodology, the Department concludes that in this instance, it may be better to smooth out that hike over a two-year period. The following table shows the comparison of the Company's current CCRA, and average annual CIP bill, with the estimated CCRA reflecting a 24-month recovery period:

Table 9: Comparison of Great Plains' Previously Approved CCRA and Department's Proposed CCRA

Previously Approved CCRA[22]	Department's Estimated 24-month CCRA	CCRA Percent Change	Current Average CIP Annual Bill (CCRA +CCRC)[23]	Proposed Average CIP Annual Bill (CCRA +CCRC)	CIP Annual Bill Percent Change
\$0.0225	\$0.2225	888.9%	\$5.83	\$20.63	253.9%

The Department encourages Great Plains to consider this analysis in its re-calculation of a proposed CCRA to be developed in the Company's reply comments. The Department will provide further analysis and final recommendations after reviewing Great Plains' reply comments.

4. Review of Customer Notification

Great Plains proposed to update the relevant tariff sheet with the approved CCRA on the Company's website upon approval by the Commission. Although this proposal would provide some degree of notification, the Department recommends, as it did last year, that a message be included on the customers' bills to provide better notification of the change in the approved CCRA, and to include its intent to do so in future CCRA filings. Specifically, the Department recommends that the Commission require Great Plains to include the following bill message in the billing month immediately following the date of the Order in the instant docket:

[22] The Department believes that comparing the proposed CCRA to the previously approved CCRA, rather than the unapproved interim CCRA, is a more representative comparison.
[23] This total uses the approved CCRA and the interim CCRC rate, and uses the Company's assumption of an average customer usage of 74 Dth per year.

> Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of [insert rate] per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

D. REVIEW OF GREAT PLAINS' DSM AND CIP ACTIVITIES (2010-2015)

In Attachment F, Table 1, the Department presents a historical comparison of Great Plains' DSM and CIP activities during the period 2010 through 2015. This table provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and energy savings have changed during that period.

An analysis of Attachment F, Table 1 indicates that, between 2010 and 2015, the Company's energy savings grew 69.4 percent, the Company's expenditures grew 298.2 percent, and the Company's incentives grew 2,422.2 percent. Great Plains' tracker balance was $241,051 at the end of 2015; this compares with a high of $369,299 in 2012 and a low of (49,755) in 2014. In the last seven years, Great Plains' carrying charges have ranged from $27,097 to ($7,527).

The Department has recently been engaged in discussions with stakeholders as to how to revise the incentive mechanism with the goal of mitigating both its amount and growth. A final incentive mechanism has been approved by the Commission and will be implemented in the Company's 2018 filing for the 2017 incentive. The Company forecasts that year's incentive to be $115,000, or about 13 percent of that year's requested $885,396 CIP expenditures.

IV. RECOMMENDATIONS

Based on the analysis above, the Department expects to recommend that the Commission:

1) approve Great Plains' 2015 financial incentive of $477,077 to be included in the Company's CIP tracker no sooner than the issue date of the Commission's Order in the present docket;
2) approve Great Plains' 2015 CIP Tracker account activity, as amended by applying the April 18, 2016 two-year U.S Treasury Bond interest rate as the carrying charge;
3) require Great Plains, in future petitions for approval of its CIP Tracker and demand side management financial incentive, to update the interest rate used to

calculate carrying charges based on the short-term cost of debt approved by the Commission in the Company's most recent rate case;

4) require Great Plains to use a CCRA calculation methodology that adequately accounts for carrying charges associated with the financial incentive;
5) require Great Plains, in future filings, to calculate the CCRA based on the projected sales, expenditures, and any pertinent adjustments, over the period the CCRA will be in place;
6) require Great Plains to include the following bill message (with the appropriate rate) in the billing month immediately following the date of the Order in the present docket:

> Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of [insert rate] per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

The Department will provide its complete and final recommendations after reviewing Great Plains' reply comments.

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