July 7, 2017

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

RE: **Reply Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G004/M-16-1066

Dear Mr. Wolf:

Attached are the Reply Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) in the following matter:

> Great Plains Natural Gas Co., A Division of MDU Resources Group, Inc. (Great Plains or the Company), Request for Approval of a Gas Utility Infrastructure Cost Rider.

The Petition was filed on December 21, 2016 and Reply Comments on May 1, 2017 by:

> Tamie A. Aberle
> Director of Regulatory Affairs
> Great Plains Natural Gas Co.
> 400 North 4th Street
> Bismarck, ND 58501

The Department recommends **approval** of Great Plains' proposed Gas Utility Infrastructure Cost (GUIC) Rider, **with modifications**. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/MICHAEL RYAN
Rates Analyst

MR/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G004/M-16-1066

I. SUMMARY

On December 21, 2016, Great Plains Natural Gas Co., A Division of MDU Resources Group, Inc. (Great Plains or the Company) filed its Petition to the Minnesota Public Utilities Commission (Commission) for approval of a Gas Utility Infrastructure Cost (GUIC) Rider (Petition). Great Plains proposed to recover $456,286 of annual revenue requirements through the GUIC Rider, effective May 20, 2017. The GUIC Rider would allow the Company to begin rate recovery of deferred and projected natural gas infrastructure investments for the Distribution Integrity Management Program (DIMP).

On April 20, 2017, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments recommending approval of the GUIC Rider with modifications and a request for additional information. The largest modifications recommended by the Department were that: 1) the GUIC Rider should only be used to recover prospective expenses that occur after the 2016 test year in the recently completed rate case and 2) the GUIC Rate adjustment factors should also be charged to flexible rate customers.

On May 1, 2017, Great Plains filed Reply Comments containing the additional information requested by the Department. In addition to the requested information, Great Plains included more support for the original annual revenue requirements of $456,286 and continued to propose to exclude flexible rate customers from the rider.

II. DEPARTMENT ANALYSIS

The Department identifies below the status of each category analyzed in the Department's April 20, 2017 Comments.

A. STATUTORY REQUIREMENTS

1. Eligibility for GUIC Rider Recovery

As in our initial Comments, the Department continues to conclude that the project costs meet the definitions outlined in Minnesota Statute 216B.1635, subd. 1 and are eligible for recovery, with the exception of costs of projects that were placed in service prior to 2017, which are discussed in detail below.

2. Filing Requirements

The Department continues to conclude that the Company has sufficiently complied with the filing requirements.

B. GREAT PLAINS' GUIC RIDER PROPOSALS

1. Timing of the Factors and Test Year Conflicts

a) Department's initial Comments

Great Plains' GUIC Filing requested recovery of $456,286 in DIMP costs through the Rider, including "2016 PVC replacement projects that were not reflected in the most recent rate case" and "2017 PVC replacement projects." The Department opposed Great Plains' request to recover 2016 DIMP costs in its GUIC Rider since the Company should have included these costs in its 2015 Rate Case; the Company's request appeared to constitute retroactive ratemaking. Instead, the Department concluded that "the GUIC Rider should only be used to recover prospective expenses that occur after the 2016 test year in the recently completed rate case."

The Department requested updated exhibits from Great Plains, with only 2017 expenditures included in the GUIC rider. Based on the information Great Plains provided, the Department concluded that only $125,214 should be allowed for recovery from the GUIC Rider and that $331,072 of the Company's requested revenue requirement was unreasonable, since the "GUIC is not meant to be a retroactive tool, but instead a proactive one that allows recovery for infrastructure projects that meet the terms of the statute between rate cases."

b) Great Plains' Reply Comments

In its Reply Comments dated May 1, 2017, Great Plains stated that its requested recovery for a revenue requirement associated with 2016 DIMP costs "is no different than what occurs in every single rate case."[1] It argued that there is no legitimate basis to exclude 2016-incurred project costs from the GUIC Rider and that such costs are "per se eligible" for recovery under Minn. Stat. § 216B.1635.[2] Because the 2016 DIMP projects meet the statutory cost definition of "GUIC" because they are "in service" and because their costs were not included in the 2015 Rate Case, Great Plains argued that they are eligible for recovery in a GUIC Rider.[3] Great Plains

[1] GP Reply Comments at page 5.
[2] *Id.*
[3] *Id.* (quoting Minn. Stat. § 216B.1635, subd. 1).

also asserted that recovery of any 2016 expenditures in the GUIC Rider prospectively would not constitute retroactive ratemaking.[4] Rather, the Company stated in part that:[5]

> In the present case, Great Plains is requesting *prospective* recovery of costs associated with infrastructure investment that is not reflected in current rates. It is no different than what occurs in every single rate case. If the Department was correct that any investment in plant between cases is not recoverable even on a prospective basis, utilities would be forced to file rate cases annually and still run the risk of significant under-recovery in violation of [statutory ratemaking principles].

In a recent email to Department counsel, Great Plains clarified its request essentially to be one for recovery of the 2017 revenue requirement associated with the 2016 DIMP costs, as follows in relevant part:[6]

> *Great Plains is not seeking to make up for any under-recovery for past periods.* (To the extent helpful, the revenue requirement files were provided in response to Department IR 6 and an example of the true-up was produced in IR 21 showing that Great Plains intend[s] to start the deferral process upon approval of the tracker, which was May 1, under the example).
>
> *In our view, Great Plains is not seeking a result any different than what would occur if the Company filed a "single issue" rate case to recover these project costs* – that is – the 2016 projects would be reflected in the 2016 base period and the 2017 projects in a projected 2017 test period. The infrastructure rider simply allows the Company to avoid the expense of filing a rate case for certain limited projects not already reflected in rates.

c) Department's Response

The Department appreciates the Company's email clarification. If this information indicates that the Company is not requesting recovery of 2016 revenue requirements, but rather only 2017 revenue requirements for projects that were placed in service in 2016 (and 2017), that is

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[4] GP Reply Comments at page 5.
[5] *Id.* (emphasis in original).
[6] DOC Attachment 1 (June 14, 2017 email from Brian Meloy to Julia Anderson) (emphasis added).

certainly helpful.[7] That information would mean that Great Plains is not requesting retroactive recovery of 2016 revenue requirements. Thus, if the Commission chooses to allow Great Plains to establish a GUIC rider, the Department concludes that the Company should be allowed to recover only 2017 revenue requirements for DIMP projects placed in service, reduced to reflect marginal reductions in operation and maintenance costs, as discussed below.

However, as discussed below, there are still policy questions for the Commission to reach. This is the first time a utility has requested to recover revenue requirements through a rider that did not exist when projects were placed in service of projects that actually were in service during a test year but were omitted from a rate case. Thus, the Department sees the following policy questions for the Commission: Should a rider be allowed to be used to correct a utility's rate case? If so, is it appropriate for such correction to occur when the rider did not exist at the time the projects were placed in service and the Company has not shown that it is reasonable to increase rates for 2016-incurred costs that were omitted from Great Plains' 2016 test year? Given that Minn. Stat. § 216B.1635 provides the Commission with discretion as to whether or not to grant a utility's GUIC Rider request, the Department discusses these policy questions for the Commission.

i) Should Great Plains be allowed to correct its 2015 Rate Case filing through GUIC Rider recovery?

Great Plains' request *is* different from what occurs in every single rate case, since the Company's proposal in effect changes the rate base that was set in that rate case, albeit not with the 2016 revenue requirements for that addition to rate base.[8] Great Plains' initial filing also is different from that of the only other petition for GUIC Rider recovery that has come before the Commission: Xcel Energy's 2015 GUIC Rider filing, MPUC Docket No. G002/M-15-808, (Xcel Energy's 2016 GUIC).[9] An important distinction between the two matters is that Great Plains proposes recovery for costs that were incurred during or prior to the same past period, calendar 2016, that was the test year for its most recent rate case. In contrast, Xcel Energy's 2016 GUIC proposal requested cost recovery for costs incurred *after* the test year of that utility's most recent 2009 rate case.

[7] Attachment 1 (June 14, 2017 email from Brian Meloy to Julia Anderson); as to the date from which it seeks costs going forward, *see* GP Reply Comments at pages 5-6; Petition at page 1 (as to the effective date of May 20, 2017).
[8] *See,* GP Reply Comments*.* At page 5 (referring to Great Plains' claim that its request "is no different than what occurs in every single rate case.").
[9] *In re Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider (GUIC) True-up Report for 2015, Forecasted 2016 GUIC Revenue Requirement, and Revised GUIC Adjustment Factors,* MPUC Docket No. G-002/M-15-808.

Great Plains' Petition referenced nearly four years of DIMP work, 2013-2016;[10] clearly, the Company knew about the DIMP projects at the time it filed its rate case. Given that Great Plains' interpretation of Minn. Stat. § 216B.1635 that 2016 DIMP costs are "per se eligible" for GUIC Rider recovery,[11] the Company may have chosen to omit inclusion of the DIMP projects in its rate case with the aim of requesting rider recovery rather than recovery in base rates. Such an approach, especially for a rider that does not yet exist, would give utilities undue discretion as to the mechanism for cost recovery. Instead, the Department concludes that the decision as to the appropriate venue for cost recovery – a rider or base rates – belongs strictly with the Commission.

The Company's statutory interpretation could allow a utility to intentionally exclude capital DIMP costs in a rate case filing in order to understate the magnitude or complexity of its actual revenue requirement request, which may draw less attention from potential opposing parties and lessen the interplay of various factors, such as allowing recovery in base rates of higher operation and maintenance (O&M) costs for older facilities, even though newer facilities recovered in the rider would have lower O&M costs. In addition, the effects of the understated revenue deficiency requirement on the Company's requested rate design may not be considered to the Commission's satisfaction.

Although the Department does not suggest an intention on the part of Great Plains to mislead parties or the Commission, the Department is uneasy as to how riders and rate cases should be considered in conjunction, especially when the utility does not keep the Commission apprised of the projects in a timely manner. Given the nearly four years of DIMP work included in the Petition, overlapping the Company's most recent rate case, with a test year of 2016 calendar year, Great Plains had ample opportunity to inform the Commission about the projects. Fundamentally, when a utility does not inform the Commission about projects that were omitted from a rate case, it is unclear that reasonable ratemaking would allow a utility to use a rider to clean up the omissions. It is also unclear whether there are any limits as to how far back in time - conceivably, prior to multiple rate cases - a utility could go and still be afforded GUIC Rider recovery.

For these reasons, the Department recommends that the Commission, in exercising its discretion as to whether or not to allow Great Plains to establish a GUIC rider, consider whether or not Great Plains has met its burden of proof to show that its request to correct its 2015 Rate Case filing, albeit on a going forward 2017 revenue requirement basis, would constitute reasonable ratemaking policy. The Department has not been convinced that Great Plains has done so, as to projects that were placed in service during or prior to the 2016 test year from the

[10] Petition, Exhibit B at page 3 of 4.
[11] GP Reply Comments at page 5.

Company's most recent rate case. Thus, while the Department recommends that the Commission allow Great Plains to establish a GUIC rider and to recover revenue requirements for projects placed in service on or after January 1, 2017, the Department concludes that Great Plains has not shown that recovery of revenue requirements for projects placed in service prior to that time should be allowed in the rider; nonetheless, such projects would be eligible for recovery in the Company's next rate case.

ii. There is no indication from the Department's review of legislative history that the Legislature enacted Minn. Stat. § 216B.1635 in order to allow a utility to re-litigate or re-do the test year for its most recent rate case

Minn. Stat. § 216B.1635 allows utilities to seek rider recovery of gas utility infrastructure costs (GUIC). The definition of GUIC costs are costs not already reflected in the utility's rates that are incurred in projects involving (1) the replacement of natural gas facilities required by road construction or other public work by or on behalf of a government agency or (2) the replacement or modification of existing facilities required by a federal or state agency, including surveys, assessments, reassessment, and other work necessary to determine the need for replacement or modification of existing infrastructure.[12] Great Plains is correct as to the statute's plain language. The statutory language, however, is silent regarding the reasonableness of Commission exercise of its discretion to approve a rider for use by a utility to correct or re-litigate the test year in its most recent rate case.

From its review of legislative committee hearing recordings underpinning the 2005 enactment of Minn. Stat. § 216B.1635, and the 2013 amendments, the Department uncovered no information that would lead it to conclude that the Legislature meant the statute in part to be used as a means to alter, fundamentally, traditional ratemaking regarding the test year of a requesting utility's most recent rate case. The Department did not expect to discover legislators' expressions of concern or intention to provide public utilities with a new opportunity to avoid traditional rate case test year practices by failing to include large amounts of GUIC-related capital costs within the proposed rate base of a utility's rate case test year, and it found no such sentiments. The Legislature may have assumed that a utility would take care to include in its test year significant capital costs for which it seeks recovery, such that the statute was intended to address costs for projects begun or placed in service between rate cases; however, the language is silent in this regard. The statute expressly states, however, that its terms are discretionary. [13] Commission discretion is an important ratepayer protection,

[12] Minn. Stat. 216B.1635, subd. 1; Xcel Gas GUIC Order at page 2*,* MPUC Docket No. G-002/M-15-808.

[13] Minn. Stat. § 645.16 sets forth factors to aid in interpreting statutory language "[w]hen the words of a law are not explicit[.]" The Department reviewed the legislative history of Minn. Stat. 216B.1635 in order to assist the Commission in its exercise of discretion under the statute rather than to ascertain whether Great Plains' 2016 DIMP costs are eligible for inclusion in a GUIC rider. The Department agrees that such costs are eligible for such recovery, although such recovery through the extraordinary ratemaking of a rider is discretionary, not mandatory.

in the Department's view, to consider unusual factors and confluence of factors from related proceedings, such as in this proceeding.

iii. Rates must be just and reasonable; Great Plains has not satisfied certain statutory criteria such that GUIC Rider recovery would result in just and reasonable rates

Minn. Stat. § 216B.03 states that rates must be just and reasonable, and that any doubt as to reasonableness must be resolved in favor of the consumer. In this matter, the Department concludes that Great Plains has not satisfied its burden of demonstrating that it satisfactorily met the statutory criteria the Commission must consider to approve GUIC Rider recovery to ensure that the resulting rates would be just and reasonable. Subdivision 4 provides, as follows:

> Subd. 4. **Cost recovery petition for utility's facilities.** Notwithstanding any other provision of this chapter, the commission may approve a rate schedule for the automatic annual adjustment of charges for gas utility infrastructure costs net of revenues under this section, including a rate of return, income taxes on the rate of return, incremental property taxes, incremental depreciation expense, and any incremental operation and maintenance costs. A gas utility's petition for approval of a rate schedule to recover gas utility infrastructure costs outside of a general rate case under section 216B.16 is subject to the following:
>
> (1) a gas utility may submit a filing under this section no more than once per year; and
>
> (2) a gas utility must file sufficient information to satisfy the commission regarding the proposed GUIC. The information includes, but is not limited to:
>
> (i) the information required to be included in the gas infrastructure project plan report under subdivision 3;
> (ii) the government entity ordering or requiring the gas utility project and the purpose for which the project is undertaken;
> (iii) a description of the estimated costs and salvage value, if any, associated with the existing infrastructure replaced or modified as a result of the project;
> (iv) a comparison of the utility's estimated costs included in the gas infrastructure project plan and the actual

costs incurred, including a description of the utility's efforts to ensure the costs of the facilities are reasonable and prudently incurred;

(v) calculations to establish that the rate adjustment is consistent with the terms of the rate schedule, including the proposed rate design and an explanation of why the proposed rate design is in the public interest;

(vi) the magnitude and timing of any known future gas utility projects that the utility may seek to recover under this section;

(vii) the magnitude of GUIC in relation to the gas utility's base revenue as approved by the commission in the gas utility's most recent general rate case, exclusive of gas purchase costs and transportation charges;

(viii) the magnitude of GUIC in relation to the gas utility's capital expenditures since its most recent general rate case; and

(ix) the amount of time since the utility last filed a general rate case and the utility's reasons for seeking recovery outside of a general rate case.

Items (v) – (ix) are of particular concern to the Department. For example, for item (v) Great Plains has not shown why either the proposed rate schedule or the proposed rate design attributed to its request for recovery of a 2017 revenue requirement associated with 2016 DIMP costs would be reasonable given that in 2016 parties litigated the utility's proposed 2016 test year and final rates were set by the Commission last year. Great Plains did not show that it was reasonable for it to have omitted the 2016 DIMP costs or that it was reasonable for it not to have sought correction of the error in the rate case docket. In addition, increasing the Commission's 2016 rate increase of by approximately 29 percent or $331,072, as Great Plains seeks as of May 20, 2017,[14] of which Residential ratepayers will be apportioned approximately 48 percent,[15] would result in a total rate increase to Residential customers of approximately

[14] In December 22, 2016, ORDER APPROVING FINAL REVENUE APPORTIONMENT AND RATE DESIGN, UPDATED BASE COST OF GAS, AND INTERIM-RATE REFUND PLAN at page 4, the Commission identified Great Plains' rate increase by customer class as $1,141,383 (adding together increases to each customer class). Another increase of $331,072 increase total rates by approximately 29 percent (331,072 divided 1,141,383= 0.2900621 times 100 equals approx. 29 percent.

[15] *Id.* Order at page 5, the residential customer class rate increase of $545,194 divided by the total increase of $1,141,383 equals approx. 48 percent.

$158,000[16] in addition to the $545,194[17] from the rate case. This amount translates into an additional $0.1077 per Dekatherm (Dth)[18] increase for residential customers or $8.62 annually assuming an annual usage of 80 Dth per year.[19] Great Plains has not shown this level of rate impact to be reasonable such that it would not constitute rate shock.

Item (vii) is also of concern in that an increase of approximately $331,072 in relation to Great Plains' base revenue most recently approved by the Commission in the 2015 Rate Case is an increase of 1.4 percent.[20] Great Plains has not shown that an increase of this magnitude is reasonable particularly since it would be on top of the 5.1 percentage increase in base revenue that was approved in the 2015 Rate Case.[21]

Finally, item (ix) is a key factor, as it considers the amount of time since the utility last filed a general rate case and the utility's reasons for seeking recovery outside of a general rate case; as noted above, the Company has not shown that it is reasonable to increase rates for 2016 -incurred costs that were omitted from Great Plains' 2016 test year.

The Department recommends that the Commission consider whether Great Plains has adequately addressed these statutory provisions as to its proposal to recover omitted test year costs as part of a later rider filing and shown its proposal to be reasonable.

iv. Department Recommendation

The Department recommends that the Commission allow Great Plains to establish a GUIC rider. However, in light of the discretionary nature of Minn. Stat. § 216B.1635, and the lack of the Company's showing that granting GUIC Rider recovery for costs of projects omitted from the Company's recent rate case would be reasonable or would result in just and reasonable rates, the Department does not support Great Plains' GUIC Rider recovery of the 2017 revenue requirement associated with 2016-DIMP costs that were placed in service before the end of Great Plains' test year, prior to the Company's filing of another rate case. However, given that Great Plains' initial filing in this case occurred before 2017, the Department supports recovery of revenue requirements for projects placed in service in 2017. Thus, the Department's analysis

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[16] The 2016 DIMP costs of $331,072 multiplied by 47.7 percent equals approx. $158,000.
[17] In December 22, 2016, ORDER APPROVING FINAL REVENUE APPORTIONMENT AND RATE DESIGN, UPDATED BASE COST OF GAS, AND INTERIM-RATE REFUND PLAN at page 4.
[18] GP Reply Comments, Exhibit A at page 1 of 9. Great Plains residential rate of $0.1485/Dth for 2016 & 2017 expenditures less residential rate of $0.0408/Dth for 2017 expenditures only equals $0.1077/Dth.
[19] In July 1, 2016, Comments by the Department of Commerce for the 2015 AAA Report (Docket No. G999/AA-15-612), Table G4 at page 45, Great Plains reported average annual use in the prior year of 80.3 and 72.4 Dth for the North and South systems, respectively. 80 Dth was assumed in the above comparison.
[20] In September 9, 2016, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at page 50, Great Plains is entitled to a jurisdictional total gross revenue of $23,502,272 for the test year ending December 31, 2016.
[21] *Id.*

below is based on 2017 revenue requirements only of projects that were placed in service beginning in 2017.

If the Commission wishes to allow Great Plains GUIC Rider recovery of the 2017 revenue requirement associated with the 2016-incurred DIMP costs prior to filing another rate case, the Department urges the Commission to be guided by Great Plains' clarification made in its email to the Department such that the amount of the GUIC Rider recovery must reflect only the 2017 revenue requirements for projects that have been placed in service. However, Great Plains should also be required to reduce its O&M costs recovered in base rates to reflect savings in this area due to upgraded infrastructure.

2. Reasonableness of Proposed Costs and Rider Cap

Setting aside the question of which project costs should be allowed for recovery in the GUIC, the Department concludes that the projected 2017 revenue requirements included for recovery through the GUIC Rider appear reasonable and supported by the Company's budgeting process. However, to help ensure that the costs are prudent, the Department recommended that the Commission not allow Great Plains to recover through the rider any increases in costs above the Company's proposed costs; instead, Great Plains should be put on notice that any increase in costs would need to be justified in a rate case before recovery would be allowed.

Great Plains opposed this proposal in its Reply Comments. However, this provision is important because it holds Great Plains financially accountable for costs incurred between rate cases. Recovery of costs through rate cases gives utilities an incentive to minimize costs between rate cases; rider recovery provides no such incentive without this mechanism. Thus, the Department continues to conclude that this normal rider ratemaking provision should be in required for Great Plains' GUIC.

3. GUIC Revenue Offsets

In initial Comments, the Department recommended that Great Plains explain, in Reply Comments, whether there are any offsetting revenues associated with these projects, including any insurance payments, any provisions to offset costs in contracts, or any other sources of funds that offsets the costs of the projects. Great Plains confirmed that there would not be any offsets associated with the GUIC projects. The Department appreciates the Company's response.

4. Rate of Return

Great Plains proposed to use the pre-tax rate of return of 7.032 percent and capital structure approved in its 2015 Rate Case (Docket No. 15-879).[22] Since this was the amount from the recent rate case, the Department agrees with Great Plains' proposal to use the rate of return from its 2015 Rate Case.

5. Prorated Accumulated Deferred Income Taxes (ADIT)

As described in detail in the initial comments, the Department recommends that the Commission approve the Company's proposed ADIT proration for the forecasted test year in the filing, subject to a true-up calculation in the following year using actual non-prorated ADIT amounts. Great Plains' proposed true-up and tracker mechanism is discussed below.

6. True-up (Tracker Recovery Mechanism)

In initial comments, the Department confirmed that the information provided in discovery matched the proposed tariff language provided in the Petition. The Department recommended in Comments that the Company also add tariff language that the tracker be reset to zero whenever Great Plains implements changes to base rates as the result of a Commission order in a general rate case. In Reply Comments, the Company agreed with the Department's recommendation.

7. Jurisdictional Allocators

The Department noted in Comments that Great Plains' Petition did not include any discussion of jurisdictional allocators and recommended that the Company explain, in Reply Comments, how it allocated gas plant costs to the Minnesota Jurisdiction in its most recent rate case and how it allocated the gas plant costs in the Petition. Great Plains responded in Reply Comments that distribution plant is directly assignable to the jurisdiction where the projects are physically located, which is the same methodology as was used in the recent rate case.

Based on this explanation, the Department understands that, should the Wahpeton, North Dakota distribution plant or any plant outside of Minnesota require gas utility infrastructure in the future, none of those costs would be assigned to Minnesota ratepayers.

8. Rate Design

Minnesota Statute § 216B.1635, subd. 4 (v) requires that the filing include calculations to establish that the rate adjustment is consistent with the terms of the rate schedule, including

[22] Petition, page 5.

the proposed rate design and an explanation of why the proposed rate design is in the public interest. Great Plains proposed the following GUIC adjustment factors by class:[23]

Table 1
Great Plains' Proposed GUIC Rate Adjustment Factors

Class	**Rate per Dekatherm (Dk)**
Sales	
Residential	$0.1485
Firm General	$0.1117
Small Int.	$0.0861
Large Int.	$0.0632
Transportation (excluding Flexible)	
Small Int.	$0.0657
Large Int.	$0.0136

The Department requested in discovery that the Company provide revenue requirements that reflected on 2017 project expenditures. The following GUIC adjustment factors are for 2017 expenditures only:[24]

Table 2
Great Plains' Proposed GUIC Rate Adjustment Factors
(2016 Expenditures Excluded)

Class	**Rate per Dekatherm (Dk)**
Sales	
Residential	$0.0408
Firm General	$0.0307
Small Int.	$0.0236
Large Int.	$0.0173
Transportation (excluding Flexible)	
Small Int.	$0.0180
Large Int.	$0.0037

[23] GP Reply Comments, Exhibit A at page 2 of 9. In the 12/21/16 Filing, the South Flex volumes reflected a customer moving from Rate 82 to Rate 82 flex. The Department understands that the change is still pending so the Large Int. rate has been restated from Comments to include the customer in Rate 82 (i.e. Large Int.).
[24] GP Reply Comments, Exhibit A at page 3 of 9. In discovery, the South Flex volumes reflected a customer moving from Rate 82 to Rate 82 flex. The Department understands that the change is still pending so the Large Int. rate has been restated from Comments to include the customer in Rate 82 (i.e. Large Int.).

The Company apportioned the revenue requirement among its classes using the rate base allocated from the Class Cost of Service Study in its most recent natural gas rate case, Docket No. G004/GR-15-879. The rates were calculated using forecasted Minnesota sales for each class.

In its Reply Comments, Great Plains supported its initial recommendation to exclude flexible rate customers from the GUIC adjustment. The Company continued to argue that such an approach would be consistent with the prior rate case. The Company explained again that the flexible rate customers are highly price sensitive and subject to effective competition. Finally, Great Plains added that none of the flexible customers will directly benefit from the GUIC projects included in this filing.

The Department continues to recommend that the flexible rate customers should be included in the GUIC adjustment for the following bulleted reasons that were addressed in Comments.

- First, the Legislature created riders as exceptions to general ratemaking policy, allowing a utility to implement a rider with a rate-adjustment mechanism to expedite recovery of certain costs not reflected in the utility's current base rates. The flexible or negotiated rate customer has negotiated a base rate and, until the GUIC can be reflected in base rates, cost recovery of the GUIC projects should be assessed to all customers within the applicable jurisdiction.
- Second, Great Plains still provided no evidence in the record that they are precluded from including flexible rate customers in GUIC recovery. The Company simply argues that "because of this price sensitivity, allocating GUIC costs to these customers is not in the public interest because it could ultimately result in higher costs for all customers" and "Great Plains already has every incentive to maximize the rate received from such customer in setting a flex rate."[25]
- Third, Xcel Energy's tariff includes a GUIC factor for all Transportation customers without an exclusion for customers on a negotiated or flexible rate. The Xcel Energy tariff specifically states that Negotiated Transportation Service customers are subject to resource adjustments provided for in the Conservation Improvement Program Adjustment Rider, the State Energy Policy Rate Rider and the Gas Utility Infrastructure Cost Rider.[26] The Department understands that each utility's GUIC Rider should be reviewed independently, but given that Xcel Energy is the only other utility at this time with a GUIC Rider, it provides a good example of how this issue has been treated.

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[25] GP Reply Comments, at page 6.

[26] Northern States Power Company, Minnesota Gas Rate Book, Section No. 5, 1st Revised Sheet No. 24. https://www.xcelenergy.com/staticfiles/xe/Regulatory/Regulatory%20PDFs/rates/MN/Mg_Section_5.pdf

- Finally, the Company added that its GUIC is unique because none of the flexible rate customers directly benefit from the project. Regardless of the direct benefit, the flexible rate customers are part of the Minnesota jurisdiction and the Great Plains' Minnesota system, and therefore should be included in paying for the system.

The Department reviewed the Company's rate design methodology and concludes that it is reasonable, with the following exceptions: 1) unless the Commission determines otherwise, Great Plains should be allowed to recover revenue requirements only for 2017 projects and 2) Great Plains' proposed GUIC Rate adjustment factors should be revised to include flexible rate customers. Table 3 reflects both of these changes.

Table 3
Great Plains' Proposed GUIC Rate Adjustment Factors
(2016 Expenditures Excluded and Inclusive of Flexible Rate Customers)

Class	**Rate per Dekatherm (Dk)**
Sales	
Residential	$0.0372
Firm General	$0.0280
Small Int.	$0.0216
Large Int.	$0.0158
Transportation (including Flexible)	
Small Int.	$0.0165
Large Int.	
North Flex	$0.0046
South	$0.0034
South Flex	$0.0029

Included in the Department's discovery request for the GUIC rate adjustment factors inclusive of flexible rate customers was the following information contained in footnote number three: [27]

> In 12/21/16 Filing, the South Flex volumes reflected a customer moving from Rate 82 to Rate 82 flex. The change is still pending so volumes are restated to be included in Rate 82.

The Department recommended that the Company provide information in Reply Comments regarding when the customer reflected in the footnote anticipates moving from Rate 82 to a flexible rate, an explanation of how Great Plains plans to account for the shift of this customer, and how Great Plains will recover the full cost of the GUIC projects. In its Reply Comments,

[27] DOC Attachment 2, DOC Information Request 27, Exhibit E.

Great Plains stated that it has presented a flexible rate contract to the customer and that it is unclear when the customer intends to respond. The calculation and description of how Great Plains will incorporate the customer switching rates were included in the Reply Comments and the Department appreciates the additional information provided. For the sake of consistency, the three rate adjustment tables above assume that the customer remains on the standard Rate 82 customer class. The Department expects that the Company will inform the Commission and Department of a change in status requiring an adjustment to the factors.

9. Tariff Review

Great Plains' tariff sheets will need to reflect the decisions the Commission makes regarding the Company's GUIC rates.

The proposed tariff sheets also include language excluding flexible rate customers in the following instances:

- **Gas Rate Schedules for Interruptible Gas Transportation Service** Rates N81, N82, S81, and S82 include a statement that "…customers served under a flexible distribution rate agreement are excluded from this provision."[28]

- **Gas Rate Schedules for Large Interruptible Gas Sales Service** Rates N85 and S85 include a statement that "…customers served under a flexible distribution rate agreement are excluded from this provision."[29]

The Department recommends that the language excluding flexible rate customers be removed from the tariff. This recommendation includes, but is not limited to, the language citations listed above.

As noted in the True-up section above, the Department recommended the addition of tariff language that the tracker be reset to zero whenever Great Plains implements changes to base rates as the result of a Commission order in a general rate case. The Company agreed to this recommendation in Reply Comments so it will have to be added to the final tariff language.

The Department continues to conclude that the Company's revisions, apart from the rate class adjustments, flexible rate exclusion, and need for additional true-up language, are consistent with the GUIC Rider proposals. Therefore, the Department recommends that the Commission approve the Company's proposed tariff sheets with modifications.

[28] Filing, Exhibit C, 5th Revised Sheet No. 5-51 and 4th Revised Sheet No. 5-81.
[29] Filing, Exhibit C, 4th Revised Sheet No. 5-59 and 4th Revised Sheet No. 5-89.

10. Customer Notice

Great Plains did not file plans to provide notice to customers regarding the GUIC Rider. For the sake of transparency, the Department recommended that the Company proactively provide notice in monthly customer gas bills for all rate classes impacted. The Company included a sample notification in its Reply Comments.

11. Future Filings

The Department continues to conclude that the Company's proposal to file its proposed changes 150 days on or after May 1 to the GUIC factors for the subsequent year is reasonable. More detail is available in the Department's Comments dated April 20, 2017.

III. CONCLUSIONS AND RECOMMENDATIONS

1. Conclusions

The Department concludes that:

- the Company has sufficiently complied with the filing requirements;
- at a minimum, the GUIC Rider should only be used to recover prospective expenses that occurred after the 2016 test year;
- the Department is not persuaded that Great Plains has shown it is reasonable to recover through a rider revenue requirements for projects placed in service prior to 2017, given that:
  - o the rider did not exist at the time projects were placed in service,
  - o it does not appear to be appropriate to allow a utility to correct its rate case through a rider for projects that existed during the rate case, and the Company has not shown that it is reasonable to increase rates for 2016-incurred costs that were omitted from Great Plains' 2016 test year, and
  - o O&M costs set in the rate case should be reduced to reflect the new infrastructure;
- setting aside the issue of costs for projects placed in service before 2017, the projected 2017 costs included for recovery through the GUIC Rider appear reasonable and supported by the Company's budgeting process;
- to help ensure that the costs are prudent, the Commission should not allow Great Plains to recover through the rider any increases in costs above the Company's proposed costs; instead, any increase in costs would need to be justified in a rate case before recovery would be allowed;

- the Company's clarification in Reply Comments that there will not be any offsetting revenue is acceptable;
- the Company's confirmation in Reply Comments that assigning distribution plant directly to the physical location matches the prior rate case methodology makes it acceptable to not assign any cost to North Dakota customers;
- the Department agrees with Great Plains' proposal to use the rate of return from its 2015 Rate Case;
- it is acceptable to allow the proposed ADIT proration for the forecasted test year in the filing, only if there is a true-up calculation in the following year using actual non-prorated ADIT amounts;
- the proposed tariff language for the true up matches the Company's description;
- rate design using apportionment of the revenue requirement among its classes allocated from the Class Cost of Service Study in its most recent natural gas rate case, Docket No. G004/GR-15-879 is acceptable, but flexible rate customers must also be included in the GUIC Rider recovery;
- since it is unclear at this time if the large customer potentially moving from the Large Interruptible Rate 82 to a flexible rate class will act, it acceptable to include the customer in its current rate class as a non-flexible customer; and
- the Company's proposal to file its proposed changes 150 days on or after May 1 to the GUIC factors for the subsequent year is reasonable.

2. Recommendations

Based on its analysis, the Department recommends that the Commission approve Great Plains GUIC Rider with the following modifications:

- the Commission not allow Great Plains to recover through the rider any increases in costs above the Company's proposed costs and any increase in costs would need to be justified in a rate case before recovery would be allowed;
- the GUIC Rider be approved to recover revenue requirements only for 2017 projects and proposed GUIC Rate adjustment factors should be inclusive of flexible rate customers;

Class	**Rate per Dekatherm (Dk)**
Sales	
Residential	$0.0372
Firm General	$0.0280
Small Int.	$0.0216
Large Int.	$0.0158
Transportation (including Flexible)	
Small Int.	$0.0165
Large Int.	
North Flex	$0.0046
South	$0.0034
South Flex	$0.0029

- the Company provide notification to customers regarding the GUIC Rider with the first bill in which the GUIC is applicable;
- the Commission approve the tariff sheets, apart from the rate class adjustments and flexible rate exclusion; and
- the Commission require Great Plains to add tariff language that the tracker be reset to zero whenever Great Plains implements changes to base rates as the result of a Commission order in a general rate case.

/ja

From: Meloy, Brian [mailto:brian.meloy@stinson.com]
Sent: Wednesday, June 14, 2017 4:56 PM
To: Anderson, Julia
Cc: Tamie A. Aberle (tamie.aberle@mdu.com)
Subject: Great Plains' Infrastructure Rider

Hi Julia,

I had a chance to follow up with Tamie on inclusion of the revenue requirement associated with 2016 plant additions in the proposed rider. Initially, each 2016 project is reflected on Great Plains' books in the month in which it went into service. As each month passes, various factors impact the revenue requirement associated with the plant additions – including depreciation, ad valorem taxes, income taxes etc. In this respect, the revenue requirement for the 2016 projects reflects depreciation, ad valorem taxes, etc. that would be recorded in 2017 based on those plant additions in service in 2016 and the return component is based on the net plant balance in 2017.

Ultimately, the GUIC is based on projected costs that would be trued up to actual costs on May 1 of each year (based on a number of factors). Great Plains would begin to recover the revenue requirement associated with the 2016 projects prospectively only after the Commission approves the rider. This same treatment applies equally to the 2017 projects that are included in the GUIC and have gone into service while Great Plains' filing has been pending. Great Plains is not seeking to make up for any under-recovery for past periods. (To the extent helpful, the revenue requirement files were provided in response to Department IR 6 and an example of the true-up was provided in IR 21 showing that Great Plains intend to start the deferral process upon approval of the tracker, which was May 1 under the example).

In our view, Great Plains is not seeking a result any different than what would occur if the Company filed a "single issue" rate case to recover these project costs – that is – the 2016 projects would be reflected in the 2016 base period and the 2017 projects in a projected 2017 test period. The infrastructure rider simply allows the Company to avoid the expense of filing a rate case for certain limited projects not already reflected in rates.

Hope this helps clarify our thinking.

Brian

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Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G004/M-16-1066	☐Nonpublic ☒Public	
Requested From:	Great Plains Natural Gas Co.	Date of Request:	4/7/2017
Type of Inquiry:	General	Response Due:	4/17/2017

Requested by: Michael Ryan
Email Address(es): Michael.J.Ryan@state.mn.us
Phone Number(s): 651-539-1807

Request Number: 27
Topic: Revenue Requirements
Reference(s): Initial Filing, Exhibit D & E, DOC Information Request #6 & DOC Information Request #26

Request:

Please provide the spreadsheets requested in DOC Information Requests 6 and 26 updated to include volumes associated with flexible rate customers.

- Initial Filing, Exhibit D&E inclusive of flexible rate customers.
- IR # 26, 2017 revenue requirements reflecting only 2017 projected expenditures inclusive of flexible rate customers.

Please provide the exhibits and supporting exhibits in Microsoft Excel format with all links and formulae intact.

Response:

Please see the attached Excel files "DOC IR 27 Exh D&E incl Flex dk" and "DOC IR 27 Exh 2017 Only with flex".

To be completed by responder

Response Date: 4/18/2017
Response by: Tamie Aberle
Email Address: tamie.aberle@mdu.com
Phone Number: 701-222-7856

GREAT PLAINS NATURAL GAS CO.
ALLOCATION OF GUIC BASED ON
AUTHORIZED REVENUE ALLOCATION INCLUDING FLEX VOLUMES
PROJECTED 2017

	Authorized 1/ Rev. Alloc	%	GUIC	Projected Dk 3/	Per Dk
Residential					
North	$2,184,051	22.0874%	$100,782		
South	2,126,981	21.5102%	98,148		
Total	4,311,032	43.5976%	$198,930	1,467,867	$0.1355
Firm General					
North	1,245,547	12.5963%	$57,475		
South	1,494,511	15.1140%	68,963		
Total	2,740,058	27.7103%	$126,438	1,240,494	0.1019
Small IT Sales					
North	540,099	5.4620%	$24,922		
South	549,521	5.5573%	25,357		
Total	1,089,620	11.0193%	$50,279	639,937	0.0786
Large IT Sales					
North	344,558	3.4845%	$15,899		
South	27,707	0.2802%	1,279		
Total	372,265	3.7647%	$17,178	297,907	0.0577
Small IT Transportation					
North	49,538	0.5010%	$2,286		
South	32,152	0.3252%	1,484		
Total	81,690	0.8262%	$3,770	62,836	0.0600
Large IT Transportation 3/					
North Flex	745,730	7.5416%	34,411	2,072,398	0.0166
South	428,919	4.3377%	19,793	1,594,323	0.0124
South Flex	118,913	1.2026%	5,487	521,486	0.0105
Total	1,293,562	13.0819%	59,691	4,188,207	0.0143
Total	$9,888,227	100.0000%	$456,286	7,897,248	$0.0578

1/ Docket No. G004/GR-15-879, Final Order Compliance Filing, Exhibit 3b, p. 1.
2/ Projected dk for the period May 2017-April 2018.
3/ In 12/21/16 Filing, the South Flex volumes reflected a customer moving from Rate 82 to Rate 82 flex. The change is still pending so volumes are restated to be included in Rate 82.

GREAT PLAINS NATURAL GAS CO.
ALLOCATION OF GUIC BASED ON
AUTHORIZED REVENUE ALLOCATION INCLUDING FLEX VOLUMES
PROJECTED 2017

	Authorized 1/ Rev. Alloc	%	GUIC	Projected Dk 3/	Per Dk
Residential					
North	$2,184,051	22.0874%	$27,657		
South	2,126,981	21.5102%	26,934		
Total	4,311,032	43.5976%	$54,591	1,467,867	$0.0372
Firm General					
North	1,245,547	12.5963%	$15,772		
South	1,494,511	15.1140%	18,925		
Total	2,740,058	27.7103%	$34,697	1,240,494	0.0280
Small IT Sales					
North	540,099	5.4620%	$6,839		
South	549,521	5.5573%	6,959		
Total	1,089,620	11.0193%	$13,798	639,937	0.0216
Large IT Sales					
North	344,558	3.4845%	$4,363		
South	27,707	0.2802%	351		
Total	372,265	3.7647%	$4,714	297,907	0.0158
Small IT Transportation					
North	49,538	0.5010%	$627		
South	32,152	0.3252%	407		
Total	81,690	0.8262%	$1,034	62,836	0.0165
Large IT Transportation					
North Flex	745,730	7.5416%	9,443	2,072,398	0.0046
South	428,919	4.3377%	5,431	1,594,323	0.0034
South Flex	118,913	1.2026%	1,506	521,486	0.0029
Total	1,293,562	13.0819%	16,380	4,188,207	0.0039 7
Total	$9,888,227	100.0000%	$125,214	7,897,248	$0.0159

1/ Docket No. G004/GR-15-879, Final Order Compliance Filing, Exhibit 3b, p. 1.
2/ Projected dk for the period May 2017-April 2018.
3/ In 12/21/16 Filing, the South Flex volumes reflected a customer moving from Rate 82 to Rate 82 flex.
The change is still pending so volumes are restated to be included in Rate 82.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Reply Comments

Docket No. G004/M-16-1066

Dated this 7th day of July 2017

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Tamie A.	Aberle	tamie.aberle@mdu.com	Great Plains Natural Gas Co.	400 North Fourth Street Bismarck, ND 585014092	Electronic Service	No	OFF_SL_16-1066_M-16-1066
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_16-1066_M-16-1066
Ian	Dobson	Residential.Utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_16-1066_M-16-1066
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_16-1066_M-16-1066
Brian	Meloy	brian.meloy@stinson.com	Stinson,Leonard, Street LLP	150 S 5th St Ste 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_16-1066_M-16-1066
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_16-1066_M-16-1066