Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: August 17, 2017 ....Agenda Item** # 1

Company: Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains)

Docket No. G-004/M-16-1066
In the Matter of the Petition of Great Plains Natural Gas Co. for Approval of a Gas Utility Infrastructure Cost (GUIC) Tariff and Adjustment

Issues:

1. Should the Commission approve Great Plains' request to establish a GUIC tariff (rider) pursuant to Minn. Stat. § 216B.1635?

2. Should the Commission approve recovery of GUIC costs associated with 2016 and 2017 infrastructure projects?

3. Should the Commission cap rider recovery through the GUIC rate at the projected costs?

4. Should the Commission direct Great Plains to apply the GUIC tariff to all customers, including customers on flexible rates?

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Relevant Documents

Great Plains - Initial Petition...December 21, 2016
Department of Commerce (Department) - Comments..April 20, 2017
Great Plains - Reply Comments...May 1, 2017
Department - Reply Comments ....July 7, 2017

The attached materials are work papers of Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

Statement of the Issues

- Should the Commission approve Great Plains' request to establish a GUIC tariff (rider) pursuant to Minn. Stat. § 216B.1635?
- Should the Commission approve recovery of GUIC costs associated with 2016 and 2017 infrastructure projects?
- Should the Commission cap rider recovery through the GUIC rate at the projected costs?
- Should the Commission direct Great Plains to apply the GUIC tariff to all customers, including customers on flexible rates?

A Note on Terminology

In the initial comments, the Department used the terms revenue requirement, expenditures, costs, and expenses interchangeably, as can be seen from the following excerpts from its Initial Comments:

> The proposed GUIC rider includes 2016-projected <u>expenditures</u> not reflected in the most recent rate case and 2017 expenditures (p. 1).
>
> Great Plains stated that it seeks recovery of costs outside of a general rate case, including retroactive <u>cost</u> recovery for 2016 (p. 1).
>
> The Company proposed to recover total estimated annual <u>revenue requirements</u> of $456,286 for DIMP related activities (p. 2).
>
> Great Plains' GUIC Filing requests recovery of $456,286 in DIMP <u>costs</u> through the Rider. These <u>costs include expenses</u> from both 2016 projected <u>expenditures</u> that the Company stated were not included in its 2015 Rate Case, which had a calendar year 2016 test year, and 2017 projected <u>expenditures</u> (p. 6).
>
> The Department does not support Great Plains' request to recover 2016 DIMP <u>costs</u> in its GUIC Rider (p. 6).
>
> Given the issue of 2016 <u>costs</u>, the Department requested updated exhibits with only 2017 <u>expenditures</u> included in the GUIC rider (p. 6).

Great Plains incurred infrastructure capital expenditures of $2,203,163 and $1,829,226 in 2016 and 2017, respectively (Exhibit F). The monthly break-down of these capital expenditures between mains and services is presented in Exhibit D of Great Plains' Initial Filing. These are "lumpy" investments which are to be recovered over a period of time (much like a home is paid for over a period of 15-, 20- or 30-years). In regulatory terms, these capital expenditures are converted to an annual revenue requirement for the purposes of designing rates to recover the capital expenditures. Exhibit D, pages 2-3, show how this revenue requirement is derived. Essentially, to the capital expenditure is applied factors relating to rate of return, depreciation, ad valorem taxes, interest expense and income taxes. Operations and maintenance expense are added in. The resulting figure is the revenue requirement. The revenue requirement is the sum total of the revenues required to pay all operating and capital costs of providing service (or, in this case, costs associated with replacing pipes, both mains and services).

The Company proposed to recover total estimated annual revenue requirement of $456,286. This revenue requirement reflects the capital expenditures incurred in 2016 and 2017. Although Great Plains refers to this revenue requirement as the 2017 revenue requirement, it also reflects capital expenditures on 2016 projects. Great Plains indicated that $125,214 represents the projected revenue requirement for 2017, while the remaining $331,072 represents the 2017 revenue requirement for the 2016 capital investments.

For the sake of clarity, the Department has referred to this revenue requirement as costs, expenditures, and expenses.

General Overview

A. Minn. Stat. § 2168.1635 - Recovery of Natural Gas Incremental Infrastructure Costs

Minn. Stat.§ 2168.1635 provides for recovery of natural gas incremental infrastructure costs associated with projects mandated by federal or state agencies with regard to a utility's pipeline integrity programs.

This statute provides "for approval of a rate schedule to recover gas utility infrastructure costs outside of a general rate case under section 216B.16," but the recovery is subject to various conditions (see § 216B.1635, Subd. 4). One specific condition is explanation of the "utility's reasons for seeking recovery outside of a general rate case."

The full text of Minn. Stat. § 2168.1635 is attached to this briefing paper as Appendix A.

B. Great Plains' Petition for Approval of Gas Utility Infrastructure Cost Rider

On December 21, 2016, Great Plains filed a petition for approval of a Gas Utility Infrastructure Cost (GUIC) tariff. The amount of cost recovery requested was $456,286[1] and based on the projected 2017 revenue requirement for infrastructure replacement projects with construction completion (and in-service) dates in 2016 and 2017.

Great Plains clarified that the projected 2017 revenue requirement also included "revenue requirement for both 2016 and 2017 projects."[2] The 2017 revenue requirement for the 2016 expenditures was stated to be $331,072 and the revenue requirement for the 2017 expenditures was estimated to be $125,214.

The revenue requirement proposed to be recovered represents two capital projects to replace PVC pipe mains and services in the Minnesota distribution network. These costs are associated with infrastructure investments mandated by federal or state agencies relating to Great Plains' Integrity Management Program (DIMP).[3] The majority of the mains and services in the replacement areas were initially installed in 1966 in Breckenridge, Renville, Pelican Rapids, Clarkfield, Echo, Belview, Danube, and Fergus Falls.

Pursuant to Minn. Stat. § 216B.1635, Subd. 4(2)(vii) which requires Great Plains to state "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," Great Plains noted that the GUIC revenue requirement is approximately 4.6-percent of the $9,888,227 authorized revenue in the 15-879 rate case.

Pursuant to Minn. Stat. § 216B.1635, Subd. 4(2)(viii) which requires Great Plains to state "the magnitude of GUIC in relation to the gas utility's capital expenditures since its most recent general rate case," Great Plains noted that the ratios were 57.5-percent and 47.6-percent, respectively for 2016 and 2017.[4]

The 2016 capital infrastructure expenditures on mains and services occurred February through December of 2016.[5] Great Plains noted that the 2016 capital investments included in this GUIC filing were not reflected in the G-004/GR-15-879 rate case.

[1] Great Plains Initial Filing, Exhibit D, p. 1.
[2] Great Plains Reply Comments at 6. Great Plains added that this was "consistent with the plain language of the GUIC statute and fundamental ratemaking principles."
[3] Great Plains has no Transportation Integrity Management Program projects forecasted for the 2017-2020 period.
[4] Exhibit F, Great Plains Initial Filing.
[5] Great Plains Initial Filing, Exhibit D, pp. 4-5.

Great Plains filed that general rate case (G-004/GR-15-879) on September 15, 2015. The rate case utilized a projected 2016 test-year revenue requirement.[6]

Great Plains argues that the 2017 revenue requirement associated with 2016 infrastructure projects included in this GUIC filing are eligible to be recovered through the GUIC tariff.[7] Great Plains specifically notes that it "will avoid filing a rate case and the costs associated with filing a general rate case through the use of a GUIC tariff and adjustment, especially when the amount sought, while critical to Great Plains, is not a significant increase to customers."[8] As for specific reasons for seeking recovery outside of a general rate case, Great Plains stated, "[t]he funding projects (work orders) for the PVC main and service replacements for projected 2015-2016 were overlooked when preparing the most recent rate case and thus were not included."[9]

Great Plains proposes an annual rate adjustment and an annual true-up of the projected costs to actual costs each year with both to be effective on May 1 each year. In its proposed tariff,[10] Great Plains states:

> **Applicability**:
> This rate schedule constitutes provision to recover the costs of investment and associated expenses for the replacement of natural gas distribution facilities required to comply with state and federal pipeline safety programs. It specifies the procedure to be utilized to adjust the rates for natural gas sold or transported under Great Plains' rate schedules in order to reflect: (a) the projected revenue requirement for the period the adjustment will be in effect and (b) a true-up of the prior year adjustment.
>
> **Effective Date:**
> The effective dates of the Gas Utility Infrastructure Cost Adjustment (GUIC) shall be service rendered on and after May 1 each year with a filing date 150 days before the proposed effective date.

[6] Findings of Fact, Conclusions, and Order, September 6, 2016, at 5.
[7] In support of its argument, Great Plains cites Minn. Stat. § 216B.1635, Subd. 1(b)(2) which defines eligible costs to include gas utility projects that "are in service but were not included in the gas utility's rate base in its most recent general rate case."
[8] Great Plains Initial Filing, Exhibit F.
[9] Great Plains response to the Department's discover request no. 16 – Attachment 2, Department Initial Comments.
[10] Proposed Original Sheet No. 5-130, Gas Utility Infrastructure Cost Adjustment. (Great Plains, initial filing, Exhibit C.)

Adjustment:

1. The Projected Revenue Requirement shall include:
    a. The return on investment on the rate base reflecting the eligible projects shall be based on the twelve month average of the projected investment and the authorized rate of return authorized in the most recent general rate case, unless otherwise determined by the Commission.
    b. The operation and maintenance, depreciation expense and ad valorem tax expense associated with the eligible projects.
    c. The revenue requirement shall be apportioned to each rate class based on the authorized non-gas costs (margin) apportionment.
    d. The revenue requirement for each rate class shall be divided by projected annual dk sales and transportation volumes to derive a cost per dk for each rate class.

2. The true-up
    a. For each annual period ending October 31 a true-up will be calculated for each rate class and will be applied effective with the change in the GUIC. This adjustment shall include:
        i. The balance in the (over) under recovered gas cost account as of October 31.
        ii. The difference between the revenue requirement based on actual project costs and recovered costs for each customer class for the twelve months ending October 31. The amount may be an under recovery or (over) recovery.
    b. The resulting balance is divided by the projected annual dk sales and transportation volumes.

Great Plains proposes to allocate the $456,286 revenue requirement among all customer classes **except** the interruptible gas transportation service customers served under a flexible distribution rate agreement (flex customers).[11] Great Plains argues that the flexible rate customers are highly price sensitive and subject Great Plains to effective competition.[12] Because of this price sensitivity and the risk of losing these customers, Great Plains maintains that allocating GUIC costs to these customers is not in the public interest and could ultimately result in higher costs for all customers.

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[11] Great Plains Gas Rate Schedule, Section No. 5, 6th Revised Sheet No. 5-51.

[12] For the purpose of the flexible rate statue (Minn. Stat. § 216B.163) a customer that subjects a gas utility to effective competition is defined in Subd. 1(b) as "… a customer of a gas utility who either receives interruptible service or whose daily requirement exceeds 50,000 cubic feet maintains or plans on acquiring the capability to switch to the same, equivalent or substitutable energy supplies or service, except indigenous biomass energy supplies composed of wood products, grain, biowaste, and cellulosic materials, at comparable prices from a supplier not regulated by the commission."

C. Department of Commerce Comments

On April 20, 2017, the Department filed its Comments. The Department raised a host of questions and request for clarification about Great Plains' filing, among which there were the following three principal issues:

(1) the GUIC tariff should be approved to recover only the projected 2017 costs;
(2) any increase above the projected 2017 costs ought not to be recovered in the GUIC rider;[13] and
(3) the GUIC Rate adjustment should also apply to flexible rate customers

The Department does not support Great Plains' request to recover the 2017 revenue requirement associated with the 2016 project investments in the present GUIC Rider filing. Allowing such an inclusion, the Department maintains, is tantamount to permitting Great Plains to correct its 2015 rate case through a rider filing. The Department holds that Great Plains should have included these costs in the rate case (G-004/GR-15-879) for recovery.

The Department also opposes recovery of any increase in the projected 2017 costs in order to help ensure that the costs are prudent. The Department argues that any increase over the projected 2017 infrastructure costs should be justified in the next rate case before recovery is permitted. The Department recommends 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.

Finally, the Department opposes the exclusion of the flex customers from the application of the GUIC tariff. The Department notes that the Legislature created riders as exceptions to general ratemaking policy, allowing a utility 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 on all customers. The Department also maintains that Great Plains has provided no evidence that it is precluded from applying the GUIC tariff to the flex customers. The Department also points out that Great Plains is the second gas utility (after Xcel), to petition for recovery of GUIC costs and that Xcel has applied its GUIC tariff to its customers, including those on negotiated or flexible rates.

[13] The Department has suggested that any increase in cost should be justified in a rate case before recovering it.

D. Great Plains' Reply Comments

On May 1, 2017, Great Plains filed its reply comments to the Department's comments.

Great Plains answered many of the questions posed by the Department in its comments. Specifically, Great Plains provided a sample customer notice and indicated its agreement with the Department's suggestion that the GUIC adjustment be reset to zero after a general rate case when the projects are reflected in base rates. But Great Plains indicated that there will still be a true-up component of the GUIC adjustment when the base component is reset to zero.

Great Plains responded to the three principal issues raised by the Department, thus:

(1) Great Plains argued that there is no legitimate basis to exclude 2016 projects from the GUIC tariff. Great Plains pointed out that the Department has not challenged the prudency or eligibility of such costs under any other criteria set forth in Minn. Stat. § 216B.1635. Great Plains maintains that these costs are *per se* eligible for recovery under the GUIC tariff. Specifically, Minn. Stat. § 216B.1635, Subd. 1(b)(2) defines eligible costs to include gas utility projects that "are in service but were not included in the gas utility's rate base in its most recent general rate case." Great Plains further maintained that whether it should have included these costs in the 2016 test-year in its 2015 rate case is not relevant under the plain language of the statute.

(2) Great Plains pointed out that the Department's recommendation that the Commission not allow Great Plains to recover through the GUIC tariff any increases in costs above the projected costs prematurely presumes that any cost above the estimate is unreasonable. Great Plains also pointed out that this proposal results in an asymmetrical tracker where it would only track cost decreases. Great Plains argued that the Department has viewed the projected 2017 costs as a cap and any cost incurred over that estimate not be allowed recovery through the GUIC tariff, even if prudent and reasonable. Great Plains indicated it has an obligation to show that any cost increase is prudent and reasonable before recovering it and that other parties have the opportunity to review Great Plains' justification in the annual true-up filing in this docket.

(3) Great Plains noted that its proposal to exclude flexible rate customers from the GUIC cost recovery is consistent with its existing rate design and cost allocation, including the Commission's decision to exclude flexible rate customers from apportionment of the rate increase authorized in Great Plains' recent general rate case (Docket No. G-004/GR-15-879). The flexible rate customers are highly price sensitive and subject to effective competition. If such large customers exit the system because of a rate increase, costs will increase for the remaining customers. Because of this price sensitivity, allocating GUIC costs to these customers is not in the public interest.

E. Department Reply Comments

On July 7, 2017, the Department filed its reply comments. The Department concluded that Great Plains' petition has fulfilled the filing requirements and that the projected 2017 costs included for recovery are reasonable and supported by the Company's budgeting process.

Regarding the three principal issues the Department raised in its initial comments, the Department continued to hold that

(1) Great Plains has not shown it is reasonable to recover costs of projects placed in service prior to 2017;

(2) the Commission should not allow Great Plains to recover through the rider any increase in the 2017-projected costs;[14] and

(3) the proposed GUIC rate should also apply to the flexible rate customers.

Issue 1. Should the Commission approve Great Plains' request to establish a GUIC tariff (rider) pursuant to Minn. Stat. § 216B.1635?

As noted by the Department, generally, a public utility proposes to change its rates in a general rate case in which the utility's costs and revenues are comprehensively reviewed. The Minnesota Legislature has, however, created exceptions to this general policy, allowing a utility to implement a rider with a rate-adjustment mechanism to expedite recovery of certain costs not reflected in the company's current base rates.

In particular, Minn. Stat. § 216B.1635 allows utilities to seek rider recovery of gas utility infrastructure costs. This statute provides for gas utilities to recover "gas utility infrastructure costs" (GUIC) associated with "gas utility projects" undertaken in compliance with federal standards aimed at improving safety, reliability and integrity of natural gas infrastructure. While these costs are mainly recovered in rate cases, Minnesota statutes permit a gas utility to recover these costs outside of rate cases.

Pursuant to this statute, Great Plains has filed a petition to recover costs of projects required for the promotion of safety and reliability of natural gas distribution.

Among a variety of things, gas utilities seeking recovery of GUIC are required to file a gas infrastructure project plan report and a petition for rate recovery of only incremental costs associated with the infrastructure projects. The project plan report should contain all pertinent information and supporting data – project description and scope, estimated project costs, and

[14] The increase in the projected-2017 costs have to be justified for recovery in the next rate case.

project in-service date – on each proposed project. The gas infrastructure project plan report must be for a forecast period of one year.

A gas utility may seek recovery of GUIC outside of a rate case but the approval of a rate schedule to recover such costs is subject to many conditions, including the utility's reasons for seeking recovery outside of a general rate case.

Staff believes that this Minn. Stat. § 216B.1635 grants the Commission wide latitude in approving or disapproving petitions to recover GUIC. Subd 4. Provides that "the commission **may approve** a rate schedule for the automatic annual adjustment of charges for gas utility infrastructure costs" (emphasis supplied) under certain conditions. The Commission may deny a petition for GUIC recovery if the GUIC investments are deemed unreasonable and imprudent and/or if the proposed rate design is not in the public interest (Subd. 4.2.(v)). The Commission itself has acknowledged that it "may approve a GUIC rider if the costs proposed for recovery through the rider are prudently incurred and achieve gas facility improvements at the lowest reasonable and prudent cost to ratepayers."[15]

The Commission has thus far approved two GUIC filings. In Docket G-002/M-14-336, the Commission approved Xcel's GUIC rider and rate-adjustment factors. The Commission approved the GUIC rider after determining that the costs were prudently incurred and that they were not associated with serving new customers or for "betterment" unless, as required by Minn. Stat. § 216B.1635, the betterment was based on requirements imposed by a political subdivision or a federal or state agency. The rate-adjustment approved by the Commission in that docket purported to recover approximately $15 million in gas utility infrastructure costs through the rider in 2015.[16] However, in that docket, the Office of the Attorney General (OAG) advocated that, due to the magnitude of the infrastructure costs and the length of time since the Xcel's last rate case (G-002/GR-09-1153), the Commission deny the petition and require Xcel to file a new rate case to recover the infrastructure costs. Generally, the OAG argued that a rate case proceeding is preferable to piecemeal rate recovery because it allows for a more complete discovery, more thorough analysis and consideration of all costs to establish rates rather than piecemeal portions of costs in isolation.

In a subsequent docket, G-002/M-15-808, Xcel petitioned to recover approximately $15.5 million in GUIC revenue requirement. The Commission authorized Xcel to recover the Commission-approved 2016 revenue requirements over the 15-month period, January 1, 2016 through March 31, 2017.

In this docket, the only party commenting on the Great Plains' petition is the Department and it has indicated that the petition fulfills the requirements of law.

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[15] Commission's August 18, 2016 Order in Docket G-002/M-15-808, at 3.
[16] Order Approving Rider with Modifications, G-002/M-14-336, January 27, 2015.

However, the Department has recommended that a portion of the costs not be recovered in this docket. The Company, on the other hand, insists that it is entitled to a full-recovery of the estimated costs.

While the Department has contested the amount of the revenue requirement to be recovered, it has not disputed the prudence of investment. The Department reached this decision after a laborious discovery process and review of Great Plains' responses. The Department stated that the GUIC investment was not betterment after "extensive discovery in regards to the projects and any potential issues with additional pipeline pressure, size, or other characteristics" and analysis of the Company's "extensive responses to [the] Department information requests."

In opposing the inclusion of the 2016 capital expenditures in the 2017 revenue requirement, the Department points to the adverse customer impact. As noted by the Department (Reply Comments, pp. 8-9):

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

The Department's objections to the recovery of the 2016 capital expenditures, its opposition to a true-up of the projected 2017 revenue requirement, and its argument that the GUIC rate adjustment also apply to flex customers collectively raise the question whether the rider docket is the most appropriate platform to recover the GUIC revenue requirement.

The GUIC capital expenditures and annual revenue requirement are significant amounts. Great Plains has noted that the proportions of the 2016 and 2017 GUIC capital expenditures are roughly 57-percent and 48-percent, respectively, of the capital expenditures shown in the rate case. Great Plains has also shown that the GUIC revenue requirement of $456,286 is about 4.6-percent of the authorized margin of $9.8 million in the rate case.

If the Commission approves the petition as filed by Great Plains, the residential rate would increase by $0.1485/dk. Great Plains has not provided the impact of its rider proposal on a representative residential customer's bill. Staff has ascertained that nearly 48-percent of Great Plains' revenue requirement of $456,286 would fall on the residential customers.[17] Assuming 80

[17] Source: Great Plains Initial filing, Exhibit E.

dt annual residential consumption, the annual impact on a typical residential customer would be about $12.

While there is general authorization to recover gas utility infrastructure costs through riders, the traditional rate case approach provides the best protection for ratepayers. Great Plains maintains that it would "avoid filing a rate case and the costs associated with filing a general rate case through the use of a GUIC tariff and adjustment, especially when the amount sought, while critical to Great Plains, is not a significant increase to customers." The Department, on the other hand, has concluded 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."[18]

Staff notes that if the Commission approves the revenue requirement as filed by Great Plains, the rate impact on the residential customers would be quite significant. If the Commission approves the Department's recommendation, the revenue requirement would only be 27-percent of that proposed by Great Plains and may not justify the regulatory expenses of the petition.

The Commission may wish to ascertain from the parties whether the GUIC rider filing is the best way consistent with the public interest to recover infrastructure revenue requirement. The Commission may also wish to ascertain how long the GUIC rider would be in effect before Great Plains files its next rate case. In this context, Staff notes that Great Plains' rate cases are few and far between. Prior to the recent 15-879 rate case, the Commission approved an earnings settlement reached between the Department and Great Plains in 2012. Prior to that, Great Plains filed a rate case in 2004 and 2002. Prior to 2002, Great Plains filed a rate case in 1983.

Decision Options

1. a. Approve Great Plains' request to establish a GUIC tariff (rider) pursuant to Minn. Stat. § 216B.1635.

1. b. Reject Great Plains' request to establish a GUIC tariff (rider) and direct Great Plains to seek recovery of GUIC in its next rate case.

[18] This statement refers to the recovery of the revenue requirement derived from the 2016 capital expenditures.

Issue 2. Should the Commission approve recovery of GUIC costs associated with 2016 and 2017 infrastructure projects?

Great Plains' Petition

Great Plains is proposing to recover a revenue requirement of $456,286. Great Plains' estimated GUIC costs include the 2017 revenue requirement on: (1) the 2016 investments that were not included in its 2015 Rate Case (which involved a calendar year 2016 test year) and (2) 2017 projected investments.

Great Plains indicated that work orders for main and service replacements for 2015-2016 were "overlooked when preparing the most recent rate case and thus were not included." The calculation of the projected 2017 revenue requirement is as follows:

Table 1			
Expense	Mains	Services	Total
Operations & Maint.	$0	$0	$0
Depreciation	$41,631	$60,204	$101,835
Ad Valorem Taxes	$31,906	$31,965	$63,871
Return[19]	$95,023	$99,564	$194,587
Income Taxes	$43,822	$52,171	$95,993
Total	$212,382	$243,904	$456,286

Out of this revenue requirement, $125,214 represents the projected revenue requirement for 2017, while the remaining $331,072 represents the 2017 revenue requirement for the 2016 capital investments that were not included in the 2015 Rate Case involving the 2016 calendar year.[20]

Great Plains holds that the Commission should permit recovery of the revenue requirement for both 2016 and 2017 projects and that its petition is consistent with the plain language of the GUIC statute and fundamental ratemaking principles.

Great Plains points out there is no dispute that the 2016 project costs were not included in Great Plains rate case (Docket 15-879).

Great Plains argues that the 2016 project costs are eligible for recovery because they are related to gas utility projects that "are in service but were not included in the gas utility's rate base in its most recent general rate case."

[19] Return is calculated by applying a rate of return of 7.032% authorized in Docket 15-879 to the 2017 average plant in service.
[20] See, the Department's Comments, April 20, 2017, Attachment 8, page 2 of 14.

Great Plains maintains that the "capital investments included in this filing were not reflected in the most recent rate case and therefore are eligible for recovery under the statute." Great Plains argues that the 2016 GUIC project costs are *per se* eligible for recovery under the GUIC Rider.

Great Plains notes that this is made clear in the GUIC statute, in particular, Minn. Stat. § 216B.1635, Subd. 1(b)(2) which defines eligible costs to include gas utility projects that "are in service but were not included in the gas utility's rate base in its most recent general rate case."

Great Plains adds that it "will avoid filing a rate case and the costs associated with filing a general rate case through the use of a GUIC tariff and adjustment, especially when the amount sought, while critical to Great Plains, is not a significant increase to customers."

Great Plains maintains that whether it "should have included these costs in its 2015 Rate Case," is not relevant under the plain language of the statute. Further, Great Plains points out that the Department does not challenge the prudency or eligibility of such costs under any other criteria set forth in Minn. Stat. § 216B.1635.

Great Plains also disagrees that the recovery of these costs is tantamount to retroactive rate-making. Great Plains maintains that the Department's assertion that "the GUIC Rider should only be used to recover prospective expenses" is inconsistent with the GUIC statute as that statute provides for recovery of plant that is already in service but not included in rates.

Great Plains argues that the Department's argument is based on a fundamental misunderstanding of the general prohibition against retroactive ratemaking. Retroactive ratemaking prohibits the Commission from adjusting current rates to make up for a utility's over- or under-collection in prior periods. In the present case, Great Plains is requesting prospective recovery of costs associated with infrastructure investment that is not reflected in current rates. Great Plains holds that this is no different from what occurs in every single rate case. If the Department were correct that any investment in plant between rate 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 the ratemaking principles set forth in Minn. Stat. § 216B.16, Subd. 6.[21]

Great Plains also argues that the Department's assertion that "the GUIC Rider should only be used to recover prospective expenses" is also inconsistent with the GUIC statute. Great Plains specifically notes that Minn. Stat. § 216B.1635, Subd. 1(b)(2) specifically provides for recovery of plant that is already "in service," but not included in rates. Great Plains points out that the

[21] See Great Plains' Reply Comments at 5. Staff does not believe Great Plains has stated the Department's position correctly. Staff believes the Department is not opposed to recovery of qualified and eligible GUIC investment in plant between rate cases; it is only opposed to the recovery of out-of-period investment that should have been recovered as part of the test-year in a prior rate case.

2016 costs at issue are not included in rates and that it is not requesting retroactive recovery of any costs or expenses associated with such investment.

Great Plains emphasized that the 2016 GUIC project costs are eligible for recovery because they meet the statutory requirements for recovery: (1) they are associated with plant in service and (2) were not included in the 2015 rate case.

Great Plains further explained that its petition is for the recovery of the 2017 revenue requirement associated with the 2016 DIMP costs.[22]

Department Position

The Department notes that a public utility generally may not change its rates except in a general rate case in which the Commission comprehensively reviews the utility's costs and revenues. As an exception to this general policy, a rider allows a utility to implement a rate-adjustment mechanism to expedite recovery of certain costs not reflected in the utility's current base rates. The Department argues that this exception does not apply to the 2016 GUIC capital projects.[23]

The Department argues that pipe replacement projects under DIMP have been ongoing since 2013 and Great Plains should have included these costs in its 2015 rate case and that recovery of costs associated with 2016 GUIC investments in the GUIC Rider constitutes retroactive ratemaking.

The Department maintains that the GUIC Rider should only be used to recover prospective expenses for projects completed after the 2016 test year in the 2015 rate case and before Great Plain's next rate case, and further limited to only those costs that are clearly associated with infrastructure projects that meet the terms of the GUIC statute.

From a policy perspective, the Department observes that Great Plains' GUIC petition is essentially a request to correct its 2015 rate case revenue requirement. The Department notes that Great Plains has requested recovery of revenue requirement through the GUIC rider which itself did not exist at the time the capital infrastructure expenditure was undertaken, and when this capital expenditure could (and should) have been included in the rate base calculated in the 15-879 rate case. The Department maintains that a rider may not be used retroactively to correct the revenue requirement set in a rate case.

The Department argues that Great Plains has asserted discretion in the choice of the rate mechanism for the GUIC cost recovery which, the Department argues, belongs to the

[22] Department Reply Comments, p. 3.
[23] The Department has concluded that these costs are "not eligible for recovery." The Department Comments, April 20, 2017, p. 8.

Commission. The Department maintains that Great Plains is not *per se* eligible to recover GUIC investment expenses and that Minn. Stat. § 216B.1635 provides the Commission with discretion as to whether or not to grant recovery of a utility's request for a GUIC rider.[24]

While Great Plains notes that exclusion of GUIC capital expenditures in the rate case was an oversight, the Department suggests that a potential exists[25] for Great Plains "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, . . ." The Department adds that "the effects of the understated revenue deficiency requirement on the Company's requested rate design may not be considered to the Commission's satisfaction."[26]

The Department notes that Great Plans' petition shows nearly four years of DIMP work and overlapping the Company's most recent rate case, with a test year of 2016 calendar year, and that Great Plains had ample opportunity to inform the Commission about the projects. The Department argues that when Great Plains 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." The Department adds that 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."

The Department recommends that the Commission authorize Great Plains to recover revenue requirements for projects placed in service on or after January 1, 2017 in the GUIC rider.

The Department argues that the GUIC rider should only allow recovery of costs of infrastructure projects that meet the terms of the GUIC statute between rate cases.

The Department maintains that 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. In addition, increasing the Commission's 2016 rate increase by approximately 29 percent, or $331,072, as Great Plains seeks as of May 20, 2017, of which residential ratepayers will be apportioned approximately 48 percent, would result in a total rate increase to residential customers of approximately $158,000 in addition to the $545,194 from the rate case. The Department suggests that "recovery of any 2016 expenditures in the GUIC Rider would appear to constitute retroactive ratemaking."

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[24] The Department Reply Comments, p. 4. Staff would add that Minn. Stat. § 216B.03, Subd. 4(2)(ix), in part, provides that the utility is required to "satisfy" the Commission regarding "the utility's reasons for seeking recovery outside of a general rate case."

[25] The Department does not at all suggest this is Great Plains' intention.

[26] Staff would point out that the exemption of flex customers from the application of the GUIC tariff, as proposed by Great Plains in this docket, would have been more difficult in a rate case setting when the GUIC expenses would have been aggregated with the rest of the revenue requirement and difficult to separate out for rate design exemption.

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

The Department also suggests that there are policy questions for the Commission to consider. This is the first time a utility has petitioned to recover revenue requirements through a rider that itself did not exist when projects were placed in service, or were actually 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 when 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.

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 is not convinced that Great Plains has done so.

The Department recommends that Great Plains should be allowed to recover only the 2017 revenue requirement associated with projects placed in service in 2017 ($125,214) in this filing.

Finally, the Department notes that Great Plains stated, in responding to the Department's discovery,[27] that it was not requesting recovery of 2016 revenue requirements, but rather only the 2017 revenue requirement for projects that were placed in service in 2016 (and 2017). The Department interprets this to mean that Great Plains is not requesting retroactive recovery of 2016 revenue requirements – only the 2017 revenue requirement for DIMP projects placed in service in 2016 and 2017. The revenue requirement (i.e. cost) for the 2016 projects would be reduced to reflect marginal reductions in operation and maintenance costs.

The Department further reiterated:

> 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.

Staff Comment

It is somewhat clear that the Department's position is that if Great Plains wants to ask for recovery of the ongoing cost of projects completed in 2016, it should make its request in its next rate case rather than in this rider petition. In this context, Staff notes that Great Plains' rate cases are few and far between. Prior to the 15-879 rate case, the Commission approved an earnings settlement reached between the Department and Great Plains in 2012. Prior to that, Great Plains filed a rate case in 2004 and 2002. Prior to 2002, Great Plains filed a rate case in 1983.

Minn. Stat. § 216B.1635, Subd. 4 states, in part, that 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" several conditions. One of the conditions is that "a gas utility must file sufficient information to satisfy the commission regarding the proposed GUIC" (Section 1635, Subd. 4(2)). Another condition is "the utility's reasons for seeking recovery outside of a general rate case" (Section 1635, Subd. 4(2)(ix)).

Great Plains has stated that it did not include these expenditures in the 2015 rate case and that it would not be cost-effective to file a rate case just to recover these expenditures. The Commission has to determine whether it is satisfied with this explanation.

[27] Department Reply Comments at 3-4.

As Staff noted in the Overview, the 2016 expenditures were incurred from February 2016 and the rate case was filed on September 2015. Great Plains would have been cognizant of these expenditures. Besides, as the Department has pointed out, Great Plains has been recording these expenditures since 2013.

Staff points out to a feature of Great Plains' filing which may run counter to the requirements stated in Minn. Stat. § 216B.1635. Minn. Stat. § 216B.1635, Subd. 2 notes that a utility submitting a petition to recover gas infrastructure costs must submit a gas infrastructure project plan report and can seek recovery of only incremental costs associated with the infrastructure projects and

> "[t]he report must be for a forecast period of one year."

Further, Minn. Stat. § 216B.1635, Subd 1(b)(2) provides that

> "Gas utility infrastructure costs" or "GUIC" means costs incurred in gas utility projects that:
>
> > "(2) are in service but were not included in the gas utility's rate base in its most recent general rate case, or are planned to be in service during the period covered by the report submitted under subdivision 2, <u>but in no case longer than the one-year forecast period in the report</u>;" (<u>emphasis supplied</u>)

Great Plains describes variously what it is requesting.

In the cover letter accompanying the filing, Great Plains notes that it is requesting approval of a GUIC tariff and proposed adjustment based on the 2017 revenue requirement.

However, in other places of the filing and reply comments, the term "revenue requirement" is variously qualified:

(1) "recovery of the revenue requirement for both 2016 and 2017 projects"[28];

(2) 2016 PVC replacement projects that were not reflected in the most recent rate case in Docket No. G004/GR-115-879, and (2) 2017 PVC replacement projects with the plain language of the GUIC statute and fundamental ratemaking principles;[29]

(3) Great Plains is requesting authority to recover the 2016 and 2017 projects under this application;[30] and

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[28] Great Plains Reply Comments at 6.
[29] Great Plains Initial Filing at 3.
[30] Great Plains Initial Filing, Exhibit B, p. 4.

(4) "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."[31]

Great Plains has made a great effort to show that it is seeking recovery of only the 2017 revenue requirement which, incidentally, includes the 2016 project costs. This appears to be a distinction without a difference. Great Plains' petition notes clearly the 2016 expenditures at Exhibit D, pp. 4-5, of the Initial Filing. These 2016 expenditures are brought forward to the "2017 Revenue Requirement" spreadsheets (Exhibit D, pp. 2-3) as having occurred (or in existence) in January through March of 2017. Exhibit D also shows that Great Plains applied factors for depreciation, accumulated reserve, ADIT, ad valorem tax and return on the 2016 investments to calculate the 2017 revenue requirement.

The Commission may wish to determine whether Great Plains' presumption that the revenue requirement for the one-year forecast period of 2017 may encompass all projects not folded into base rates which were in service in 2016 and 2017 satisfies the scope of the forecast year in Minn. Stat. 216B.1635, Subd 1(b)(2).

Decision Options

2. a. Approve Great Plains' petition:
Permit recovery of the 2017 revenue requirement ($456,286) representing the projected revenue requirement for 2017 and the 2017 revenue requirement for the 2016 capital investments that were not included in the 2015 rate case.

If the Commission adopts option **2. a.**, the Commission may also consider:

Requiring Great Plains, in its first annual GUIC rider cost adjustment filing, to submit a proposal to reduce the amount of operations and maintenance (O&M) costs recovered in base rates to reflect savings due to upgraded infrastructure. (Department, modified)

2. b. Approve the Department's Modification:
Permit recovery of $125,214 representing the 2017 revenue requirement for only the investments made in 2017. Direct Great Plains to seek recovery of the revenue requirement for the 2016 capital investments in its next rate case.

[31] Department Reply Comments at 3.

Issue 3. Should the Commission cap rider recovery through the GUIC rate at the projected costs?

Staff Comment: As noted above, Great Plains has proposed to recover/pass-through any increase/decrease in the projected 2017 costs in this docket through a true-up mechanism. The Department has suggested that Great Plains justify and seek recovery of any increase in projected costs in the next rate case.

Great Plains Position

Great Plains has estimated the GUIC rider on projected 2017 costs and revenues and proposes a true-up of the projected costs to actual costs each year to be effective on May 1 of the following year.

As noted before, Great Plains points out that the Department has prematurely presumed that any cost above the projected cost is unreasonable. Great Plains also points out that this proposal results in an asymmetrical tracker where it would only track cost decreases. Great Plains indicated its obligation to show that any cost increase is prudent and reasonable and that other parties have the opportunity to review Great Plains' justification in the annual true-up filing in this docket.

Great Plains proposes to calculate the true-up using actual costs and tracker revenue for the twelve months ending October 31 and to reflect the true-up in a December 1 filing to be effective May 1 of the following year.[32]

Department Position

The Department recommends that, in order to help ensure that costs are prudently incurred, the Commission should not allow Great Plains to recover through the rider any increases in costs above the Company's projected costs; instead, Great Plains should be required to justify the cost increase in the next rate case before recovery is allowed. The Department holds that its proposal will make Great Plains financially accountable for cost over-runs incurred between rate cases and that recovery of costs through rate cases gives utilities an incentive to minimize costs between rate cases. Rider recovery of costs, on the other hand, provides no such incentive.

The Department recommends that Great Plains 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. Since this is the first year of the GUIC Rider, the Department notes that there is no tracker balance included in the 2017 proposed annual revenue requirements.

[32] Department Initial Comments at 12.

The Department also argues that in calculating the return on plant in service for mains and services, Great Plains included the effects of proration on its accumulated deferred income taxes (ADIT) balances (See Great Plains Initial Filing, Exhibit D). Prorating ADIT has the effect of increasing the annual revenue requirement over what it would be if ADIT was not prorated.[33]

The Department concluded that 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.

Staff Comment

The Commission may wish to inquire of the Department as to the pros and cons of Great Plains' suggestion that parties have an opportunity to review the reasonableness and prudence of Great Plains' actual costs each year in the annual true-up filing before approving recovery.

Staff does not believes there is any dispute regarding the pass through (or true-up) of cost reductions or refund of revenue over-collections through the annual true-up, however, the Commission may wish to confirm the accuracy of this observation with the parties.

Staff notes that the ADIT proration issue can be addressed in the true-up filing or in the true-up portion of the next rider filing.

Decision Options

3. a. Approve Great Plains' proposed tracker and true-up mechanism. The true-up calculations shall be filed using actual costs and tracker revenue for the twelve months ending October 31 in a December 1 filing to be effective May 1 of the following year.

3. b. Adopt the Department's recommendation to cap recovery of costs through the rider at the projected 2017 amounts. The true-up calculations shall be filed using the lesser of actual or projected costs and actual tracker revenue for the twelve months ending October 31 in a December 1 filing to be effective May 1 of the following year.

Great Plains may, if justified, request recovery for any increase in the projected 2017 costs in its next rate case.

3. c. Require Great Plains to add tariff language that the tracker be reset to zero whenever Great Plains implements changes to basic rates as the result of a Commission Order in a general rate case.

[33] See the Department's Comments, Otter Tail Power Company's Petition for Approval of its Transmission Cost Recovery Rider Annual Adjustment, E017/M-16-374, March 3, 2016, p. 12.

Issue 4: Should the Commission direct Great Plains to apply the GUIC tariff to all customers, including customers on flexible rates?

Great Plains Position

Great Plains argues that its proposal to exclude flex customers is consistent with the GUIC statute and the Commission's determination in Great Plains' last rate case.

Great Plains notes that Minn. Stat. § 216B.1635 specifically provides that a gas utility file sufficient information, including

> 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,

to the Commission's satisfaction.

Great Plains believes its proposal to exclude flexible rate customers from responsibility for GUIC cost recovery is consistent with its existing rate design and cost allocation, including the Commission's recent decision to exclude flexible rate customers from apportionment of the rate increase authorized in Great Plains' recent general rate case in Docket No. G-004/GR-15-879.[34]

In excluding such customers from any portion of the authorized rate increase, Great Plains notes, the Commission recognized that the flexible rate customers are highly price sensitive and subject to effective competition. If such large customers exit the system because rates are increased, costs increase for remaining customers. Because of this price sensitivity, Great Plains stated allocating GUIC costs to these customers is not in the public interest because it could ultimately result in higher costs for all customers. Great Plains added: "Furthermore, the Department's arguments overlook the fact that the transportation rate paid by each customer is individually negotiated based on the circumstances of each customer. In this respect, the Department's conclusion that even with the proposed increase, none of the flexible rate customers will be at the ceiling rate, ignores the fact that if these customers could not demonstrate that a flexible rate was needed, they would be at the ceiling rate. Great Plains already has every incentive to maximize the rate received from such customers in setting a flex rate."

[34] In that rate case, Great Plains did not project the same level of revenue from two large customers on flexible rates as it did from other customers who did not receive the benefit of flexible rates. The Department argued that the Commission should impute to Great Plains the revenues that these customers would have generated had they been taking service at standard tariffed rates. The Commission allowed the two customers to continue receiving service pursuant to flexible rates and denied the Department's proposal to impute revenues. The Commission concluded that "Great Plains provided sufficient evidence regarding the customers' potential to obtain energy from other sources to justify a finding in support of the Company's strategy in this matter." September 6, 2016 Order, dkt. 15-859, p. 38-39.

Finally, Great Plains argued that the fact that Xcel Energy's tariff includes a GUIC factor for all Transportation customers without an exclusion for customers on a negotiated or flexible rate does not mean that such treatment is appropriate for Great Plains. In the present case, none of the flexible rate customers will benefit from the GUIC projects at issue. This is because the flex rate customers (1) are located in areas where there is no PVC pipe, (2) are connected directly to the transmission line, (3) are on a separate distribution system that has no PVC pipe, (4) or, in the case of one customer, is in an area where the PVC pipe was replaced in 2013.

The GUIC rate adjustment proposed by Great Plains is presented below:

Table 2
GUIC Rate Adjustment Factors
(**2017 Revenue Requirement on 2016 & 2017 Projects)**
(excluding flexible contract customers)

Class	Rate per Dk
Sales	
Residential	$0.1485
Firm General	0.1117
Small Int.	0.0861
Large Int.	0.0632
Transportation (excluding flexible contracts)	
Small Int.	0.0657
Large Int.	0.0315

Department's Comments

The Department argues that the flexible rate customers should be included in the GUIC rate adjustment.

The Department maintains that 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.

Great Plains has provided no evidence that it is precluded from including flexible rate customers in GUIC cost recovery. The Department is not convinced by Great Plains' argument that the flex customers are subject to effective competition and that the potential loss of revenue from this group of customers would not be in the public interest.

The Department points out that 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. 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.

The Department has recommended the following rates:

Table 3 Department-Recommended Rates (Excludes 2017 Revenue Requirement for 2016 Projects) (Includes Flex Customers)	
Class	Rate per Dk
Sales	
Residential	$0.0372
Firm General	0.0280
Small Int.	0.0216
Large Int.	0.0158
Transportation (including flexible contracts)	
Small Int.	0.0165
Large Int.	
North Flex	0.0046
South	0.0034
South Flex	0.0029

The Department's proposed rates if the Commission **excludes 2016 capital expenditures and flex customers** are given below:

Table 4 **GUIC Rate Adjustment Factors (Excludes 2017 Revenue Requirement for 2016 Projects) (Excludes Flex Customers)**	
Class	Rate per Dk
Sales	
Residential	$0.0408
Firm General	$0.0307
Small Int.	$0.0236
Large Int.	$0.0173
Transportation (excluding flexible contracts)	
Small Int.	$0.0180
Large Int.	$0.0087

Staff Comment

The Commission may wish to inquire if there is merit to approving the rates recommended by the Department but offering the option to Great Plains of imputing revenue in the annual cost adjustment calculation and the annual true-up calculation for revenue not actually charged to the flexible rate customers.

This is similar to what the Commission has done in rate cases when its sets interim rates for flexible rate customers based on a finding of exigent circumstances.

Staff also notes that, on the other hand, flexible rate customers, have in some instances been exempted from responsibility for helping to pay for certain gas affordability programs.

If the Commission permits recovery of costs related to both 2016 and 2017 capital expenditures and also includes flex customers in the assessment of GUIC rider, the following rates will apply:[35]

[35] Department Reply Comments, Attachment 2, p. 2.

Table 5 GUIC Adjustment Rates (Includes 2017 Revenue Requirement for 2016 and 2017 Projects) (Includes Flex Customers)	
Class	Rate per Dk
Sales	
Residential	$0.1355
Firm General	0.1019
Small Int.	0.0786
Large Int.	0.0577
Transportation (including flexible contracts)	
Small Int.	0.0600
Large Int.	
North Flex	0.0166
South	0.0124
South Flex	0.0105

Decision Options

4. a. Adopt Great Plains' recommended GUIC adjustment (Table 2): (include 2016 and 2017 costs and exclude flex rate customers)

or

4. b. Adopt the Department's recommended GUIC adjustment (Table 3). (exclude 2016 costs and include flex customers)

or

4. c. Approve a variant of the Department's recommendation (Table 4). (exclude 2016 costs and exclude flex customers)

or

4. d. Approve a variant of Great Plains' recommendation (Table 5). (include 2016 and 2017 project costs and include flex customers) and

4. e. Approve the following customer notice to be inserted with the customer's bill the month the GUIC is implemented:

> On December 21, 2016 Great Plains Natural Gas Co. (Great Plains) requested the Minnesota Public Service Commission (MNPUC) for approval of a Gas Utility Infrastructure Cost (GUIC) tariff. The establishment of the GUIC adjustment tariff will allow Great Plains to recover out-of-test-year infrastructure investments mandated by federal and state agencies associated with Great Plains' pipeline integrity and safety programs such as the cost of assessments, modifications and replacement of natural gas facilities. The GUIC was approved by the MNPUC on ____, 2017.
>
> The per dekatherm adjustment charge approved in the GUIC filing is shown by customer class in the table below. The GUIC is reflected as a separate line item on your monthly gas service statement and will be effective with service rendered on or after _____, 2017.
>
> {Insert Customer Class and Commission-Approved Rate Adjustment}
>
> Questions? Contact us at 1-800-638-3278

Decision Alternatives

Should the Commission approve Great Plains' request to establish a GUIC tariff (rider) pursuant to Minn. Stat. § 216B.1635?

1. a. Approve Great Plains' request to establish a GUIC tariff (rider) pursuant to Minn. Stat. § 216B.1635.

1. b. Reject Great Plains' request to establish a GUIC tariff (rider) and direct Great Plains to seek recovery of GUIC in its next rate case.

Should the Commission approve recovery of GUIC costs associated with 2016 and 2017 infrastructure projects?

2. a. Approve Great Plains' petition:
Permit recovery of the 2017 revenue requirement ($456,286) representing the projected revenue requirement for 2017 and the 2017 revenue requirement for the 2016 capital investments that were not included in the 2015 rate case.

If the Commission adopts option **2. a.**, the Commission may also consider:

Requiring Great Plains, in its first annual GUIC rider cost adjustment filing, to submit a proposal to reduce the amount of operations and maintenance (O&M) costs recovered in base rates to reflect savings due to upgraded infrastructure. (Department, modified)

2. b. Approve the Department's Modification:
Permit recovery of $125,214 representing the 2017 revenue requirement for only the investments made in 2017. Direct Great Plains to seek recovery of the revenue requirement for the 2016 capital investments in its next rate case.

Should the Commission cap rider recovery through the GUIC rate at the projected costs?

3. a. Approve Great Plains' proposed tracker and true-up mechanism. The true-up calculations shall be filed using actual costs and tracker revenue for the twelve months ending October 31 in a December 1 filing to be effective May 1 of the following year.

3. b. Adopt the Department's recommendation to cap recovery of costs through the rider at the projected 2017 amounts. The true-up calculations shall be filed using the lesser of actual or projected costs and actual tracker revenue for the twelve months ending October 31 in a December 1 filing to be effective May 1 of the following year.

Great Plains may, if justified, request recovery for any increase in the projected 2017 costs in its next rate case.

3. c. Require Great Plains to add tariff language that the tracker be reset to zero whenever Great Plains implements changes to basic rates as the result of a Commission Order in a general rate case.

Should the Commission direct Great Plains to apply the GUIC tariff to all customers, including customers on flexible rates?

4. a. Adopt Great Plains' recommended GUIC adjustment (Table 2):
(include 2016 and 2017 costs and exclude flex rate customers)

or

4. b. Adopt the Department's recommended GUIC adjustment (Table 3).
(exclude 2016 costs and include flex customers)

or

4. c. Approve a variant of the Department's recommendation (Table 4).
(exclude 2016 costs and exclude flex customers)

or

4. d. Approve a variant of Great Plains' recommendation (Table 5).
(include 2016 and 2017 project costs and include flex customers)

and

4. e. Approve the following customer notice to be inserted with the customer's bill the month the GUIC is implemented:

> On December 21, 2016 Great Plains Natural Gas Co. (Great Plains) requested the Minnesota Public Service Commission (MNPUC) for approval of a Gas Utility Infrastructure Cost (GUIC) tariff. The establishment of the GUIC adjustment tariff will allow Great Plains to recover out-of-test-year infrastructure investments mandated by federal and state agencies associated with Great Plains' pipeline

integrity and safety programs such as the cost of assessments, modifications and replacement of natural gas facilities. The GUIC was approved by the MNPUC on ____, 2017.

The per dekatherm adjustment charge approved in the GUIC filing is shown by customer class in the table below. The GUIC is reflected as a separate line item on your monthly gas service statement and will be effective with service rendered on or after _____, 2017.

{Insert Customer Class and Commission-Approved Rate Adjustment}

Questions? Contact us at 1-800-638-3278

Compliance

5. a. Require Great Plains to submit a compliance filing within 20 days of the Commission issuing its Order in this docket that includes revised tariff language reflecting the Commission's decision, the proposed effective date of the GUIC cost adjustments appearing on customer bills, and a revised customer notice.

5. b. Request comments from parties within 10 days of Great Plains submitting its compliance filing.

216B.1635 RECOVERY OF GAS UTILITY INFRASTRUCTURE COSTS.

Subdivision 1. **Definitions.** (a) "Gas utility" means a public utility as defined in section 216B.02, subdivision 4, that furnishes natural gas service to retail customers.

(b) "Gas utility infrastructure costs" or "GUIC" means costs incurred in gas utility projects that:

(1) do not serve to increase revenues by directly connecting the infrastructure replacement to new customers;

(2) are in service but were not included in the gas utility's rate base in its most recent general rate case, or are planned to be in service during the period covered by the report submitted under subdivision 2, but in no case longer than the one-year forecast period in the report; and

(3) do not constitute a betterment, unless the betterment is based on requirements by a political subdivision or a federal or state agency, as evidenced by specific documentation, an order, or other similar requirement from the government entity requiring the replacement or modification of infrastructure.

(c) "Gas utility projects" means:

(1) replacement of natural gas facilities located in the public right-of-way required by the construction or improvement of a highway, road, street, public building, or other public work by or on behalf of the United States, the state of Minnesota, or a political subdivision; and

(2) replacement or modification of existing natural gas facilities, including surveys, assessments, reassessment, and other work necessary to determine the need for replacement or modification of existing infrastructure that is required by a federal or state agency.

Subd. 2. **Gas infrastructure filing.** A public utility submitting a petition to recover gas infrastructure costs under this section must submit to the commission, the department, and interested parties a gas infrastructure project plan report and a petition for rate recovery of only incremental costs associated with projects under subdivision 1, paragraph (c). The report and petition must be made at least 150 days in advance of implementation of the rate schedule, provided that the rate schedule will not be implemented until the petition is approved by the commission pursuant to subdivision 5. The report must be for a forecast period of one year.

Subd. 3. **Gas infrastructure project plan report.** The gas infrastructure project plan report required to be filed under subdivision 2 shall include all pertinent information and supporting data on each proposed project including, but not limited to, project description and scope, estimated project costs, and project in-service date.

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.

Subd. 5. **Commission action.** Upon receiving a gas utility report and petition for cost recovery under subdivision 2 and assessment and verification under subdivision 4, the commission may approve the annual GUIC rate adjustments provided that, after notice and comment, the costs included for recovery through the rate schedule are prudently incurred and achieve gas facility improvements at the lowest reasonable and prudent cost to ratepayers.

Subd. 6. **Rate of return.** The return on investment for the rate adjustment shall be at the level approved by the commission in the public utility's last general rate case, unless the commission determines that a different rate of return is in the public interest.

Subd. 7. **Commission authority; rules.** The commission may issue orders and adopt rules necessary to implement and administer this section.

History: *2005 c 97 art 10 s 1,3; 2013 c 85 art 7 s 2,9*

NOTE: This section expires June 30, 2023. Laws 2005, chapter 97, article 10, section 3, as amended by Laws 2013, chapter 85, article 7, section 9.