

## Staff Briefing Papers

Meeting Date September 24, 2020

Agenda Item 4 \*\*

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Company Minnesota Rate Regulated Electric and Gas Utilities

Docket Nos. **E, G-999/CI-20-425**

**In the Matter of an Inquiry into the Financial Effects of COVID-19 on Natural Gas and Electric Utilities**

**E, G-999/M-20-427**

**In the Matter of the Petition of the Minnesota Rate Regulated Electric and Gas Utilities for Authorization to Track Expenses Resulting from the Effects of COVID-19 and Record and Defer Such Expenses into a Regulatory Assets.**

- Issues
1. Are the accounting methodologies proposed by the electric and gas utilities for tracking costs, revenues and grants incurred or received reasonable? Are cost and revenues clearly identified and clearly within specific categories?
  2. What additional actions should the Commission take, if any? Are there any conditions or further caveats that should be considered related to the Commission's granting of authority to establish regulatory assets?
  3. Should the Commission request information on the financial effects of the COVID-19 pandemic on the utilities?

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

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## Relevant Documents

## Date

### Docket 20-425

PUC Staff - Briefing Papers for May 7, 2020 Agenda Meeting	April 29, 2020
Minnesota Power – Comments	June 10, 2020
Dakota Electric Association – Compliance Filing	June 10, 2020
Minnesota Energy Resources Corp. (MERC) – Initial Filing	June 10, 2020
Minnesota Large Industrial Group (MLIG) – Comments	July 10, 2020
Department of Commerce, Division of Energy Resources - Comments	July 10, 2020
MERC – Reply Comments	July 20, 2020

### Docket 20-427

Joint Petitioners – Initial Filing, Request for Deferred Accounting	April 20, 2020
PUC Staff - Briefing Papers for May 7, 2020 Agenda Meeting	April 29, 2020
Office of the Attorney-General – RUD - Letter	May 4, 2020
PUC - Notice of Comment Period	May 20, 2020
PUC - Order Approving Accounting Request and Taking Other Actions Related to COVID-19 Pandemic	May 22, 2020
Office of the Attorney General (OAG-RUD) – Comments	May 27, 2020
Joint Petitioners – Comments	June 10, 2020
Xcel Energy (Electric & Gas) – Comments	June 10, 2020
Minnesota Power – Comments	June 10, 2020
Otter Tail Power Company – Comments	June 10, 2020
Dakota Electric Association – Comments	June 10, 2020
CenterPoint Energy – Comments	June 10, 2020
Minnesota Power – Comments	June 10, 2020
Great Plains Natural Gas Company – Comments	June 10, 2020
MERC – Comments	June 10, 2020
CenterPoint Energy – Comments	July 1, 2020
Department of Commerce, Division of Energy Resources - Comments	July 10, 2020

**Relevant Documents**

	<b>Date</b>
OAG-RUD (OAG) – Comments	July 10, 2020
Minnesota Large Industrial Group (MLIG) – Comments	July 10, 2020
Joint Petitioners	July 20, 2020
CenterPoint Energy	July 20, 2020
MERC	July 20, 2020

**1<sup>st</sup> Quarterly Reports – Docket 20-427**

PUC – Notice of Clarification of Quarterly Reporting Requirement	June 25, 2020
Greater Minnesota Gas – Quarterly Compliance Filing	July 28, 2020
Great Plains Natural Gas Co. – Quarterly Compliance Filing	July 30, 2020
Xcel Energy (Electric & Gas) – Quarterly Compliance Filing	July 30, 2020
CenterPoint Energy – Quarterly Compliance Filing (Public & Trade Secret)	July 30, 2020
Otter Tail Power Co. – Quarterly Compliance Filing	July 30, 2020
MERC – Quarterly Compliance Filing	July 30, 2020
Minnesota Power – Quarterly Compliance Filing	July 30, 2020
Dakota Electric Association – Quarterly Compliance Filing	July 31, 2020
CenterPoint Energy – COVID Cost Estimates	August 7, 2020
Dakota Electric Association – (Clarification) Letter	August 21, 2020

## Table of Contents

I.	Statement of the Issues .....	1
II.	Introduction .....	1
III.	Background .....	1
IV.	Parties' Positions.....	2
A.	Department.....	2
B.	OAG .....	3
C.	Minnesota Large Industrial Group (MLIG) .....	5
D.	Joint Petitioners .....	6
E.	Xcel Energy.....	7
F.	Minnesota Power (MP).....	7
G.	Otter Tail Power (Otter Tail) .....	8
H.	Dakota Electric Association (DEA).....	8
I.	CenterPoint Energy (CenterPoint or CPE).....	8
J.	Minnesota Energy Resources Corporation (MERC) .....	8
K.	Great Plains Natural Gas Company (Great Plains, GP) .....	10
L.	Greater Minnesota Gas (GMG).....	10
V.	Are the accounting methodologies proposed by the electric and gas utilities for tracking costs, revenues and grants incurred or received reasonable? Are cost and revenues clearly identified and clearly within specific categories?.....	10
A.	Tracking uncollectible expenses .....	11
B.	Operating Expenses (Labor and Non-labor) .....	11
C.	Revenue Impacts.....	12
D.	Off-sets.....	12
VI.	What additional actions should the Commission take, if any? Are there any conditions or further caveats that should be considered related to the Commission's granting of authority to establish regulatory assets?.....	13
A.	Possible end date for deferred accounting .....	13
B.	Possible standardized approach to quarterly reporting.....	14
C.	Allowing/Disallowing Tracking of Specific Expenses .....	15
VII.	Should the Commission request information on the financial effects of the COVID-19 pandemic on the utilities? .....	15
VIII.	Decision Alternatives .....	16

## I. Statement of the Issues

1. Are the accounting methodologies proposed by the electric and gas utilities for tracking costs, revenues and grants incurred or received reasonable? Are cost and revenues clearly identified and clearly within specific categories?
2. What additional actions should the Commission take, if any? Are there any conditions or further caveats that should be considered related to the Commission's granting of authority to establish regulatory assets?
3. Should the Commission request information on the financial effects of the COVID-19 pandemic on the utilities?

## II. Introduction

On March 13, 2020, Governor Walz declared states of emergency due to the COVID-19 pandemic. Since March, various state and federal government officials—including the Chair of the Commission and the Commissioner of the Minnesota Department of Commerce (Department)—have issued guidance, recommendations and utility-specific requests with regard to COVID-19.

On April 20, 2020, the Rate Regulated Electric and Natural Gas Utilities submitted their joint request for deferred accounting for incremental costs incurred as a result of COVID-19 in Docket No. E, G-999/M-20-427. The utilities proposed an effective date of March 13, 2020.

On May 22, 2020, the Minnesota Public Utilities Commission (Commission) issued its ORDER APPROVING ACCOUNTING REQUEST AND TAKING OTHER ACTIONS RELATED TO COVID-19 PANDEMIC (May 22 Order), in Docket Nos. E, G-999/CI-20-425 and E,G-999/M-20-427, granting the Utilities' request for deferred accounting and required the utilities to track costs and revenues or grants incurred or received as a result of the COVID-19 Pandemic. The Utilities were also required to make an initial filing of their accounting methodology and known and estimated costs and revenues within the specific categories in 21 days and quarterly thereafter.

The May 22 Order, for the duration of these proceedings, also delegated authority to the Executive Secretary to modify and vary procedures and deadlines, including the procedures and deadlines in this and subsequent orders.

## III. Background

On May 20, 2020 the Commission issued its Notice of Comment Period, in which the Commission required Petitioners to include in their June 10, 2020 initial filings “[a]n explanation of their proposed accounting methodology for tracking costs and revenues or grants incurred or received as a result of the COVID-19 Pandemic as well as any known and estimated costs and revenues, clearly identified within specific categories.”

On May 27, 2020, the OAG filed comments recommending how costs should be tracked tracked should be presented and how they should be calculated.

On June 10, 2020, the Joint Petitioners and the utilities filed comments detailing expenses and lost revenues they believe should be eligible for tracking.<sup>1</sup>

On June 25, 2020, the Commission issued a Notice of Clarification of Quarterly Reporting Requirements (Clarification), whereby the Executive Secretary made several relevant clarifications to the Commission's May 22, 2020 Order, including that "[c]ompliance filings will include estimates of any COVID-related costs or offsets that are known at that time."

On July 1, 2020, CenterPoint Energy (CPE) filed comments addressing the types of costs and foregone revenues they expect to track.

On July 10, 2020, the Department, the OAG, and the MLIG filed comments. The Department agreed with some of the proposed tracking methodologies and proposed refinements to how certain costs are tracked and calculated. The OAG recommended that the Commission establish consumer protections, including offsets to the tracked costs. The MLIG expressed a general concern regarding deferred accounting and reserved the right to comment on utility-specific recovery proposals.

On July 20, 2020, the Joint Petitioners, MERC and CenterPoint filed reply comments addressing the Department's and the OAG's comments and further explaining how tracking should be done.

Between July 28 and July 31, 2020, the utilities made their first quarterly compliance filings reporting, through June 20, 2020, COVID-related costs and providing their accounts receivables' aging.

## **IV. Parties' Positions**

### **A. Department**

The Department supports the Commission's statement that, "The utilities will still bear the burden to establish significance, prudence, reasonableness and incremental nature of the net COVID-19 effect on utility costs and revenues at the time they seek recovery."

The Department generally agrees with the Joint Petitioners' overall approach and CPE's four-step process for tracking and deferring COVID-19 related costs and revenues and that the Joint Petitioners' Attachment A is a good starting point to identify possible costs and revenues related to COVID-19.

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<sup>1</sup> Joint Petitioners, June 10, 2020 Comments, Attachment A

The Department also supports allocating of costs and revenues to the proper business unit and for the Minnesota jurisdiction, as noted by CPE.

The Department stated that utilities will need to demonstrate that any costs they incur are truly incremental as opposed to merely a redeployment of resources for which the utilities are already charging customers. Incremental costs and revenues should be measured as the difference between the currently approved revenue requirements and the actual costs and revenues impacted by COVID-19 in 2020, using the prorated basis noted by CPE and starting with an effective date of March 13, 2020. However, the Department does not support tracking customer counts as proposed by CenterPoint Energy. Instead, the Department recommends a prorated revenue requirement comparison of approved test year amounts to 2020 actual amounts for the pandemic related period approved by the Commission.

The Department noted that, with the exception of Minnesota Power, Otter Tail Power and Dakota Electric, the Joint Petitioners already have decoupling or sales true-up mechanisms, so additional recovery above Department recommended and Commission approved caps is not appropriate.

The Department does not support carrying costs, working capital impacts, or lost production tax credits for deferred accounting.

The Department supports an end date of September 13, 2020 for tracking and deferral of COVID-19 impacts, which is 60 days after the pandemic emergency and consistent with the Commission's decision regarding the period to suspend disconnects for residential customers in Docket No. E,G999/CI-20-375. This approach would result in a six-month tracking period from March 13 to September 13, 2020. However, depending on how the pandemic develops in Minnesota, the Department is open to a possible extension of tracking and deferral to year-end 2020.

The Department supports the Commission's clarification that utilities should report 30 days after the end of each quarter, starting with the first report on July 30, 2020.

The Department believes that it may be premature to look at the overall financial effects of the COVID-19 pandemic on the Joint Petitioners at this time.

## **B. OAG**

The OAG recommends that the Commission impose the following consumer protection requirements: "(1) a date-specific end for the utilities' costs to be eligible for inclusion in any regulatory asset, to be triggered by the lifting of Minnesota's peacetime emergency declaration; (2) taking a holistic approach to determine what utility expenses qualify as incremental costs by imposing stringent tracking requirements on Petitioners, such as mandating that Petitioners develop and file an "Attachment B," which should include all offsetting savings; (3) imposing vigorous monthly—and not quarterly—tracking and reporting requirements to inform quarterly Commission hearings with a built-in notice and comment process whereby interested parties, including consumer advocates, will be given the ability to

voice potential concerns as close to real-time as possible; and (4) requiring Petitioners to file financial information to enable the Commission to determine how the COVID-19 pandemic is impacting the utilities' financial bottom lines.”

In addition, the OAG recommended that the Commission consider the following as advocated for by the Michigan Attorney General's Office to the Michigan Public Service Commission:<sup>2</sup>

- In the spirit of shared sacrifice and to instill an appropriate incentive for cost control, the Commission should limit the recovery of net costs to only 80% of the amount actually incurred;
- The Commission should make it clear that it expects the utilities to take appropriate actions to reduce costs and maximize revenue during the duration of the pandemic, including reducing and postponing capital projects that are not critical to maintaining service or safety. These actions are critical to assist customers who may ultimately face the burden of potentially higher costs incurred by the utilities;
- The Commission should discourage utilities from claiming recovery of non-measurable or difficult to measure costs, such as employee productivity costs or lost opportunity costs;
- The Commission should discourage the use of carrying charges or the impression of making the utilities whole on their increased cost of operation given the financial hardship suffered by customers during this unusual time, including many businesses who will never be made whole for the financial losses they suffered from COVID-19;
- Any reductions in power costs or natural gas costs due to lower prices or reduction in sales should be passed on to customers as much as possible during 2020 by lowering purchased gas adjustments, or through special refunds; and
- The Commission should consider implementing many of the recommendations, as appropriate in Minnesota, contained in the resolution concerning the effects of the public health and economic crises resulting from COVID-19 upon utility rates and services provided to consumers by public utilities as issued by the National Association of State Utility Consumer Advocates.[<sup>3</sup>]

Further, in addition to tracking savings and offsets to anticipated COVID-19-related expenses, the OAG recommended that the Commission require the utilities to track and report trends related to (1) fuel and purchased power costs, (2) costs of capital, (3) operations and maintenance costs and (4) the efficient deployment of generating units given the assumed

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<sup>2</sup> OAG Comments, pp. 8-9 (July 10, 2020)

<sup>3</sup> *“In the Matter, on the Commission's Own Motion, to Review its Response to the Novel Coronavirus (COVID-19) Pandemic, including the Statewide State of Emergency, and to Provide Guidance and Direction to Energy and Telecommunications Providers and Other Stakeholders, MPSC Case No. U-20757, Attorney General Reply Comments on Utility Accounting for Covid-19 Related Expenses and Additional Comments at 2-3 (May 13, 2020).”*



flattening of loads.<sup>4</sup> “The Commission should ensure that utilities are curtailing expensive and uneconomic generating units to better match the flatter load to maximize savings or offsetting savings.”<sup>5</sup>

The OAG also stated that “the Commission may find it administratively helpful to mandate that Petitioners submit their compliance filings using a uniform template.”

The OAG recommended that the Commission require Petitioners to disclose in their monthly compliance reports the following financial information:

- Whether any dividends were paid out by Petitioners to their parent companies, and, if so, the amount and date of such dividends;
- Any SEC filings and/or utility investor calls that make statements regarding the particular utility’s past, current or future financial projections related to the COVID-19 pandemic;
- Whether the utility has made any changes to planned capital projects, and if so, the extent of such change;
- Whether Petitioners or their parent companies have instituted any hiring freezes, and, if so, the projected duration; and
- Whether Petitioners or their parent companies have or plan to terminate or furlough utility employees as a result of the COVID-19 pandemic.

The OAG also asked that the Commission ensure that Petitioners, who are oftentimes insulated from the economic realities of recessions and depressions, shoulder their share of the burden.

### **C. Minnesota Large Industrial Group (MLIG)**

MLIG stressed that it will be imperative for the Commission to carefully evaluate the merits of any specific utility request for cost recovery through thorough stakeholder feedback.

MLIG reserved the right, with or without comment period, to submit comments on any utility-specific proposal pertaining to the Commission’s allowance of deferred accounting of COVID-19-related expenses. Such comments may be filed by MLIG in its entirety or by one of the utility-specific large power customer groups of which MLIG members are also part of (i.e., the Large Power Intervenors, the Xcel Large Industrials, or the Super Large Gas Intervenors).<sup>6</sup>

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<sup>4</sup> OAG Comments, p. 11.

<sup>5</sup> Id., p. 13.

<sup>6</sup> MLIG Comments, p. 2 (July 10, 2020).

#### D. Joint Petitioners<sup>7</sup>

The Joint Petitioners do not believe there is a “one size fits all” approach with substantial specificity that can or should be adopted in this docket and propose a uniform framework for tracking COVID19 related expenditures and other financial impacts that may be tracked and deferred by each utility

The Joint Petitioners also intend to analyze their COVID-19 related expenditures or other financial impacts considered for deferral as follows:

1. Is the cost or other financial impact directly related to the COVID-19 pandemic or governmental actions stemming from the pandemic?
2. Is the cost or other financial impact incremental to an established baseline?
3. Is it practicable to identify and either document or track the particular incremental cost or other financial impact?

The Joint Petitioners provided a preliminary list of cost and revenue categories they have identified for tracking as Attachment A to their June 10, 2020 Comments. These can be broadly categorized as follows:

1. Uncollectible accounts expenses
2. Other operating expense impacts
3. Revenue impacts
4. Other/Miscellaneous

The Joint Petitioners believe the issue currently before the Commission is a limited one – should the Commission approve, modify or reject the Petitioners’ proposed framework and template (Attachment A to the Petitioners’ June 10 filing) for tracking cost and revenue impacts due to the pandemic. No cost recovery decisions can or should be made.

The Joint Petitioners agree with some of the Department comments and recommendations, including the acknowledgement that any utility seeking cost recovery will bear the burden of proof, that any such recovery should be limited to incremental costs or revenues and that quarterly reports should be filed 30 days after the end of each quarter.

The Joint Petitioners believe the Commission should neither guarantee nor foreclose any recovery [e.g. carrying costs and limiting recovery to 80% of costs incurred] unless and until a utility requests it. They also disagree with the OAG’s recommendations that the Commission require utilities to track and report trends related to (1) fuel and purchased power costs, (2) costs of capital, (3) operations and maintenance costs and (4) the efficient deployment of

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<sup>7</sup> The Joint Petitioners consist of the rate-regulated electric and natural gas service providers in Minnesota, alphabetically: CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas, Dakota Electric Association, Great Plains Natural Gas Co., Greater Minnesota Gas, Inc., Minnesota Energy Resources Corporation, Minnesota Power, Northern States Power Company d/b/a Xcel Energy and Otter Tail Power.

generating units given the assumed flattening of loads. Additionally, they noted that they have already included cost of capital and operations and maintenance impacts in Attachment A, and any changes in “fuel and purchased power costs” or “the efficient deployment of generating units given the assumed flattening of loads” will be captured in filings that will occur outside of this docket.

Further, the Joint Petitioners disagree with:

- the OAG recommendation to require monthly reporting by the utilities, with monthly notice and comment periods, and quarterly agenda meetings;
- the Department and OAG requests that the Commission establish an “end date” for any tracking and deferral, tying such a date to the end of the peacetime emergency, with or without an additional period of time of up to 60 days.

#### **E. Xcel Energy**

In general, Xcel Energy is tracking the costs and revenues included in the preliminary list provided as Attachment A to the Joint Petitioners’ Comments and believes the financial impacts of COVID-19 on the Company are likely to fall within the four broad categories identified in those Comments.

Xcel believes “the goal of this docket should not be to identify and track each and every incremental impact across the range of FERC accounts. Rather, the intent should be to identify incremental cost impacts caused by the COVID-19 pandemic, organized in a way that allows parties to understand them, that are reasonable to bring forward for review at a later date.”

Xcel Energy believes it is premature to report preliminary known costs or estimated costs related to COVID-19, and the appropriate next step is to achieve alignment around the financial impact categories laid out in the Joint Petitioners’ Comments.

#### **F. Minnesota Power (MP)**

Minnesota Power supports and intends to analyze expenditures or other financial impacts consistent with the General Approach outlined in the Joint Petitioner comments filed on June 10, 2020.

MP has taken the following actions to mitigate costs:

- Resolved its 2019 rate case to provide relief to MP’s customers through a refund of all interim rates;
- Redeployed field credit & collections employees to assist with meter installations as part of the Company’s advanced metering infrastructure project.
- Enhanced its low-income affordability (CARE) program, which MP believes is one factor in the lower number of residential customers with late payments and arrears balances.

### **G. Otter Tail Power (Otter Tail)**

Otter Tail believes the general approach, framework and tracking or other documentation of the specific items listed in Attachment A to the Joint Petitioners' Comments plus any items that arise in the coming months which are not anticipated can be the basis for any later regulatory review by the Commission.

Regarding subsequent reporting, Otter Tail believes initial estimates could start to be provided following the close of the third quarter of 2020.

### **H. Dakota Electric Association (DEA)**

To date, DEA has not incurred significant expenses and believes it is still too early in its response to the pandemic to develop reasonable estimates of the total expense or revenue impacts that will be incurred.

DEA proposes to use funds received from Great River Energy to ease the financial impact on member distribution systems as an offset to the COVID related costs that DEA is tracking. As a result, these funds will not be included in DEA's January 2021 Resource and Tax Adjustment filing.

### **I. CenterPoint Energy (CenterPoint or CPE)**

At this time, CPE suggests that the need for an all-inclusive list of possible impacts is not warranted.

CenterPoint recommends utilities file quarterly reports for each fiscal quarter with a one-month lag from the end of each quarter. CPE added that nothing submitted in preliminary reports should be determined to be a finding for ratemaking purposes as to any amount or the appropriate method for recovery. Such analysis and determination should be reserved for future proceedings.

CPE proposed to track impacts beginning with the Governor's March 13, 2020 order declaring a peacetime emergency and will track expenses on a monthly basis for an undetermined amount of time.

In reply comments, CenterPoint stated that it should be permitted to track revenue losses that are not captured by the Company's decoupling mechanism and added that the Commission need not make a decision at this time on whether recovery for these losses is appropriate.

### **J. Minnesota Energy Resources Corporation (MERC)**

MERC stated that it is too early to develop comprehensive lists of potential increased costs and foregone revenue types that MERC has or will incur during and after the COVID-19 pandemic,;

therefore, MERC cannot reasonably estimate the potential magnitude of all of the financial impacts at this time with any level of accuracy.

MERC stated that it is actively taking steps to manage costs in response to the reduced sales and revenues resulting from the shutdown of many parts of the economy and significant slowdowns in others. MERC is not proposing any accounting measures associated with either reduced commercial and industrial revenues or savings related to O&M costs that result from its cost management efforts.

MERC proposed carrying costs for both incremental expenditures and foregone revenue and believes carrying costs should accrue, for MERC, at MERC's authorized weighted average cost of capital.

MERC believes that the quarterly reports need not be overly detailed or lengthy and need not be subject to rounds of party comments or analysis unless or until a utility requests rate recovery. MERC recommended that the only reporting requirement be a simple summary of the totals by month by category recorded since the prior report.

MERC requested that quarterly filings be done on a calendar quarter basis with the due date of each filing to be no earlier than 30 days after quarter end.

MERC agreed with the Commission's determination that "utilities will still bear the burden to establish significance, prudence, reasonableness and incremental nature of the net COVID-19 effect on utility costs and revenues at the time they seek recovery."

MERC stated that subjecting the utilities and the Commission to extensive reporting, comment periods, and quarterly meetings is unduly burdensome to all parties concerned and recommended that the Commission not approve the recommendations of the OAG in this regard.

MERC stated that each utility should be permitted to make its own determination as to the information that it will track for the purposes of the deferral. Mandating a template for all utilities to use will likely be an exercise in futility as the landscape changes and as the utilities independently determine which categories are materially important to them.

MERC proposed that each utility only be required to track and report those costs and revenue impacts for which it intends to preserve the ability to seek future rate recovery and that item categories remain dynamic. Failure to include a particular category in one reporting period would not preclude them from including it in a later reporting period.

MERC believes that it is premature to define the basis for determining how incremental costs should be calculated in a future request for rate recovery. Each utility should have the opportunity to propose alternative methods for assessing the impacts if appropriate. MERC requests that the Commission not take a position at this time on these specific recommendations from the Department and instead permit the utilities to weigh these

methods in a future rate recovery request, which preserves the Department’s ability to make its case if and when a utility ultimately seeks recovery.<sup>8</sup>

MERC is not proposing any accounting measures associated with either reduced sales revenues or savings related to O&M costs that result from its cost management efforts.

According to MERC, each utility should be allowed to make its own determination whether or not to track and record carrying costs, at what rate the carrying costs should be deferred and whether or not to seek rate recovery in the future.

MERC agrees with the Department in that setting a date-certain for the start of the deferral period at March 13, 2020, is reasonable. However, MERC proposed that the Commission not set a hard and fast end date at this time.

#### **K. Great Plains Natural Gas Company (Great Plains, GP)**

GP agrees with Joint Petitioners that a “one size fits all” approach is not appropriate. GP shares the Joint Petitioners’ view that it is still too early for utilities to provide a comprehensive list of potential costs and other financial impacts directly related to COVID-19.

Great Plains will not be seeking an adjustment for sales or transportation revenues as Great Plains revenues are currently subject to a decoupling mechanism – though Great Plains may seek relief from the cap on surcharges under the decoupling mechanism to the extent gas usage is significantly lower due to the pandemic and such under-recovery jeopardizes Great Plains’ ability to recover its cost of providing service.

#### **L. Greater Minnesota Gas (GMG)**

GMG agrees there is not a “one size fits all” approach.

GMG requests that the Commission approve its proposed tracking methodology.

#### **V. Are the accounting methodologies proposed by the electric and gas utilities for tracking costs, revenues and grants incurred or received reasonable? Are cost and revenues clearly identified and clearly within specific categories?**

The methodologies being used by the electric and gas utilities for tracking costs, revenues and grants incurred or received are not standardized or consistent. There are however some areas of similarities to how some of the Companies are tracking costs and revenues.

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<sup>8</sup> MERC Reply Comments, pp. 3-4. (July 20, 2020)

### A. Tracking uncollectible expenses

Most of the Utilities stated that they will track uncollectible expenses with direct relation to the COVID – 19 pandemic; and delineate how the expenses are related.

- Great Plains Gas plans to identify and track uncollectible expenses that are attributable to the effect of the pandemic. The utility did not provide any specifics about how it will achieve this process.
- Otter Tail Power stated that it has already been reporting on the status of total customers in arrears and the amounts in Docket No. E,G-999/CI-20-375. The Company believes that as arrears grow over time during the COVID – 19 moratorium, uncollectible expenses will exceed the amount of rate base authorized uncollectible expenses.
- Minnesota Power, Center Point Energy and Minnesota Energy Resource Corp plan to track uncollectible expenses by comparing the actual uncollectible expense to the test year filed rate case or consider the incremental nature of the expenses incurred in relation to the bad debt costs already authorized in rates.
- Xcel Energy responded that in the past several years, it has tracked and deferred a variety of costs, and that their internal systems and processes are capable of doing the same for COVID-19 related expenses and revenues. To track incremental costs related to COVID-19, the Company stated that it has set up a series of internal orders (protocols) in its General Ledger (SAP) system. The combination of the internal orders and the cost element field in SAP will allow Xcel Energy to identify incremental costs by jurisdiction, business area, resource type.
- Dakota Electric hopes to be able to not seek no recovery of increased net costs due to COVID-19. DEA considers its participation in this process as a regulatory placeholder in case financial circumstances require action. Dakota Electric stated that its budgeting process and accounting system use specific project codes. These project codes are used by management to track and report operating results. The Company stated that early on it established a “COVID” project code that it is able to use this project code and its general ledger account structure to identify all net COVID expenses.

### B. Operating Expenses (Labor and Non-labor)

As a result of the pandemic, the Utilities made several operational changes with cost implications. Some of the changes are expected to result in incremental costs, like the purchase of personal protective equipment (PPE), technologies associated with remote work, and cost related to other safe working practices; while others would result in reduced costs.

Attachment A of the joint Petitioners’ comments contains a preliminary list of cost and revenue categories for tracking.<sup>9</sup> Some of the incremental costs reflected in the utilities’ quarterly reports include the cost of PPE, costs related to recommended safe working practices such as

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<sup>9</sup> Attachment A, Joint Petitioners’ Comments

social distancing, costs to sanitize and deep clean facilities, overtime or contractor costs due to quarantined employees and other circumstances related to COVID-19.

### C. Revenue Impacts

Areas of the revenue impacts outlined in the Utilities' comments are as follow:

- Great Plains - seeks relief from the cap on surcharges under the decoupling mechanism to the extent gas usage is significantly lower due to the pandemic and such under-recovery jeopardizes its ability to recover its cost of providing service, and proposed further that the loss of late payment charges be an item to be deferred.
- Otter Tails Power Co. - expects revenue impacts as described in Attachment A to the Joint Petitioners' Comments.
- Minnesota Power – will review customer billing system that captures the amount of customer reconnection and late payment fees that have been waived. The Company will then track and compare other potential revenue impacts incurred during the pandemic to the Company's 2019 rate review.
- Center Point Energy - Lost revenues in excess of the Company's decoupling margin; waived late fees; and waived reconnection fees.
- Minnesota Energy Resource Corp. - anticipates reduced sales revenue due to a reduction in utility service usage. While residential usage may remain consistent or even increase as a result of work and travel restrictions, the company notes that MERC's commercial and industrial customers have reduced their energy use during the Stay At Home and Stay Safe MN orders.

### D. Off-sets

Some of the Utilities did not provide a clear plan for tracking revenue off-sets to expenses related to COVID – 19. Revenue off-set ideas provided were as follow:

- Minnesota Power - will review cost savings resulting from workflow and other changes realized during the pandemic as compared to the forecasted test year costs proposed in the Company's 2019 general rate case.
- CenterPoint Energy – will apply savings attributable to the suspension of disconnections, as well as recognition of any reduced level of expense attributable to the change in operations caused by the state emergency. Additionally, any related reimbursements, state or federal relief would be included as an offset to the COVID impacts in a future request for recovery.
- Dakota Electric Association - will review its 2020 budget and anticipates that some activities will not take place due to restrictions resulting from the pandemic. These expenses and off-setting credits will be identified as discrete dollar amounts.
- MERC – will apply O&M cost savings to offset sales revenue losses.



## VI. What additional actions should the Commission take, if any? Are there any conditions or further caveats that should be considered related to the Commission's granting of authority to establish regulatory assets?

### A. Possible end date for deferred accounting

The Department and the OAG have recommended that the Commission establish an end date for deferred accounting. The utilities generally oppose this recommendation because the peacetime emergency is still in effect; therefore, COVID-related costs continue to accrue.

While Staff agrees that costs continue to accrue, Staff considers a recommendation to establish an end date to be sensible. Rather than establishing a specific end date, however, the Commission could also establish a “soft” date instead that is contingent on a particular event such as the lifting of the peacetime emergency. If the Commission adopted that alternative, deferred accounting could end the day the emergency ends or some specific time after that – 60 days after, for instance.

Staff notes that, regardless of when deferred accounting accrual ends, actual/final amounts may not be quantifiable for some time. For instance, if utilities do not start disconnections until the end of the emergency, most payment plans (however construed) for accounts in arrears will not be agreed upon until then. Once those payment plans are in effect then, unless customers default, the utilities would not be recording bad debt. If payment plans last for six, twelve or twenty-four months, the final magnitude of bad debt expense will be unknown until then.

Staff has focused on bad debt because, for every utility, as shown on Table 1, deferred COVID expenses are significantly lower than the 60+/90+ past due amounts. Typically, 90+ arrearage has a higher likelihood of being written off to bad debt.

**Table 1 – Summary of Deferred COVID Expenses and Accounts Receivable, by Utility<sup>10</sup>**

Company	Deferred COVID expenses	Total Accounts Receivable	Accounts Receivable - 60+ days past due	Accounts Receivable - 90+ days past due
CenterPoint Energy	\$1,365,950	n/a	n/a	\$7,841,604
Dakota Electric	\$316,000	\$25,070,480	n/a	\$2,601,717
Great Plains Gas Co.	\$54,000	\$1,347,414	n/a	\$248,001
Greater Minnesota Gas	(\$15,067)	\$212,661	\$66,516	n/a
MERC	\$144,032	\$10,301,764	n/a	\$2,568,205
Minnesota Power	\$932,978	\$37,495,932	n/a	\$2,257,988

<sup>10</sup> Through June 30, 2020.

Company	Deferred COVID expenses	Total Accounts Receivable	Accounts Receivable - 60+ days past due	Accounts Receivable - 90+ days past due
Otter Tail Power	\$300,000 - \$500,000	\$19,291,065	n/a	\$1,068,191
Xcel Energy - Gas & Electric	\$1,100,000	\$279,183,087	n/a	\$36,780,693

Since recovery of deferred COVID expenses will probably not be authorized for individual utilities until they submit their next rate case, the passage of time will allow for more certainty regarding final amounts for each utility, especially with respect to bad debt.

#### B. Possible standardized approach to quarterly reporting

The utilities' July 31 compliance filings (for the period ending June 30, 2020) included diverse levels of granularity for the deferred COVID-related expenses summarized in Table 1. Some utilities stated that, at the time, they only had enough information to provide estimates.

Staff anticipates that, for the October 31 compliance filings (2<sup>nd</sup> quarterly reports), utilities will have more certainty regarding some, but not all, expenses. So that the Commission can better assess those reports, the Commission may want to require utilities to provide the following information:

- Is the report amount of expense actual or an estimate?
- Explain the methodology used to calculate those expenses.

To facilitate review, the utilities should report actual and estimated expenses separately. A possible format could be as follows:

	Actual Amount	Estimated Amount	Methodology Used
Expense 1			
Expense 2			
Expense 3			
Expense 4			
Total			

Regarding accounts receivable, some utilities provided month-end aging totals for the quarter's three months. Since that information shows how receivables are trending for each company, the Commission may want to request that all future quarterly filings include month-end aging totals for all three months.

Finally, Staff points out that CenterPoint's July 31 compliance filing does not appear to provide "current" accounts receivable information. The Commission may want CenterPoint to confirm this fact and, if needed, instruct them CenterPoint to report current amounts in future quarterly filings.

### C. Allowing/Disallowing Tracking of Specific Expenses

The Joint Petitioners have generally disagreed with a one-size fits all approach and, due to the diverse circumstances of each utility, Staff concurs with them on this point. The Joint Petitioners, the Department and the OAG have expressed differing views regarding what expenses should or should not be tracked; however, since no recovery decisions are being made at this time, Staff does not see any harm in allowing utilities to track the costs they think apply to COVID-19.

Since no utility has disputed the fact that, when they individually seek recovery, they will have the burden of proof regarding whether or not such recovery should be approved, the Commission may not need to make a decision on any specific expenses at this time.

### VII. Should the Commission request information on the financial effects of the COVID-19 pandemic on the utilities?

The Department and the utilities believe it may be premature to look at the overall financial effects of the COVID-19 pandemic on the Joint Petitioners at this time. However, the Commission may get a sense of the effects that are accruing over time based on the utilities' quarterly reports. Further Otter Tail noted that it has been significantly impacted by the lowered demand for oil since a major Otter Tail customer is a pipeline (30%+ of Otter Tail's Minnesota energy usage). Minnesota Power also stated that it is having revenue impacts from the loss of industrial customers. As MP noted, "[t]he following customers have announced either a partial or indefinite idling: Minntac, Keetac, Hibbing Taconite, Northshore Mining Company, Blandin and Sappi. As of June 9, 2020, Verso announced the indefinite idling of its Duluth mill."

The OAG recommended "requiring Petitioners to file financial information to enable the Commission to determine how the COVID-19 pandemic is impacting the utilities' financial bottom lines."

Specifically, the OAG recommended that the Commission require Petitioners to disclose in their monthly compliance reports the following financial information:

- Whether any dividends were paid out by Petitioners to their parent companies, and, if so, the amount and date of such dividends;
- Any SEC filings and/or utility investor calls that make statements regarding the particular utility's past, current or future financial projections related to the COVID-19 pandemic;
- Whether the utility has made any changes to planned capital projects, and if so, the extent of such change;
- Whether Petitioners or their parent companies have instituted any hiring freezes, and, if so, the projected duration; and

- Whether Petitioners or their parent companies have or plan to terminate or furlough utility employees as a result of the COVID-19 pandemic.

Staff agrees with the Department and the Petitioners that is too early to reasonably estimate the overall financial impact the pandemic will have on the utilities. However, the Commission may wish to expand the quarterly reporting requirement (or monthly reporting if the OAG's recommendation is adopted) to include some, or all, of the OAG's recommendations. Such information could provide additional information on the impacts the pandemic is having on the financial condition of the utilities.

## VIII. Decision Alternatives

### Accounting Methodology

1. Adopt the Joint Petitioners methodology as outlined in Attachment A of their June 10, 2020 as reasonable. (Joint Petitioners)
2. Allow utilities to track revenue losses that are not captured by decoupling mechanisms. (CPE)
3. Allow carrying costs. (MERC)
4. Adopt one or more of the following Department recommendations: (Department)
  - Require the utilities to provide prorated revenue requirement comparisons of approved test year amounts to 2020 actual amounts of tracked items for the pandemic related period approved by the Commission.
  - Require all utilities to track budgeted activities that will not take place as a result of the pandemic and correspond to savings and reduced expenses.
  - Do not allow deferral and tracking of carrying costs.
  - Do not allow deferral and tracking of working capital impacts.
  - Do not allow deferral and tracking of lost production tax credits.
5. Order Joint Petitioners to develop and file an "Attachment B," which should include all offsetting savings. (OAG)
6. Adopt the recommendations advocated by the Michigan Attorney General's Office to the Michigan Public Service Commission. (OAG)
7. Take no action.

### End Date for Tracking and Deferred Accounting

8. Do not adopt an end date for tracking deferred COVID-related expenses. (Joint Petitioners)
9. Allow deferred COVID-related expenses to be tracked through a specific Commission-determined date. (OAG)
10. Allow deferred COVID-related expenses to be tracked through September 13, 2020. (Department primary position)
11. Allow deferred COVID-related expenses to be tracked through December 31, 2020. (Department secondary position)
12. Allow deferred COVID-related expenses to be tracked through the end of the peacetime emergency, plus any additional Commission-determined time. (Staff)

### Frequency of Future Compliance Reporting

13. Order that future compliance reporting continue on a quarterly basis. (Joint Petitioners. DOC)
14. Order that future compliance reporting be made on a monthly basis. (OAG)

### Additional Reporting

15. Adopt one or more of following OAG recommendations for the periodic utility reports: (OAG)
  - Require utilities to track and report trends related to fuel and purchased power costs.
  - Require utilities to track and report trends related to costs of capital.
  - Require utilities to track and report trends related to operations and maintenance costs.
  - Require utilities to track and report trends related to the efficient deployment of generating units given the assumed flattening of loads.
  - Require utilities to disclose whether any dividends were paid out by Petitioners to their parent companies, and, if so, the amount and date of such dividends include carrying costs.
  - Require utilities to disclose any SEC filings and/or utility investor calls that make statements regarding the particular utility's past, current or future financial projections related to the COVID-19 pandemic.

- Require utilities to disclose whether the utility has made any changes to planned capital projects, and if so, the extent of such change.
- Require utilities to disclose whether they or their parent companies have instituted any hiring freezes, and, if so, the projected duration.
- Require utilities to disclose whether they or their parent companies have or plan to terminate or furlough utility employees as a result of the COVID-19 pandemic.

### Standardized Reporting

16. Require the utilities to report actual and estimated expenses separately using the following format: (Staff)

	Actual Amount	Estimated Amount	Methodology Used
Expense 1			
Expense 2			
Expense 3			
Expense 4			
Total			

### Appendix 1

## Joint Petitioners' Request for Deferred Accounting for COVID-19 Related Costs, Summary of Filing and Summaries of Individual Utility Companies Response Comments

### Joint Petition of Utility Companies

#### Summary of Joint Petition

The regulated Utilities filed a joint petition on April 20, 2020 that requested for Commission's authorization for each of the Petitioners to track incremental costs and expenses incurred as a result of COVID 19, defer such costs and record them into a regulatory asset, so that each utility preserves the option to request recovery in a future proceeding, subject to full Commission review.

### Summaries of Comments by the Utility Companies

COVID-19 Impacts	Great Plains	Otter Tail Power Company	Minnesota Power	CenterPoint Energy	Dakota Electric Association	Xcel Energy (Northern States Power)	Minnesota Energy Resources Corp.
<b>Uncollectible Expenses</b>	Great Plains stated that it intends to track and defer items only directly related to the pandemic; that any request for recovery will fully explain how the	Otter Tail stated that uncollectible account impacts may be significant based on early experience working with customers who are in arrears. The Company has been reporting on	Minnesota Power plans to review actual uncollectible account expenses incurred during the pandemic, compared to the test year filed in the Company's	CenterPoint Energy plans to track incremental bad debt expense arising from unpaid customer bills. The Company recognizes that a certain amount of bad debt costs, for example, are already authorized in	Dakota Electric hope to seek no recovery of increased net costs due to COVID-19. They considered their participation in this process and docket to be viewed as	Northern State Power d/b/a Xcel Energy responded that in the past several years, it has tracked and deferred a variety of costs, and that their internal	MERC stated that increase in uncollectible and arrearages as a result of the current economic conditions and the suspension of customer disconnections

COVID-19 Impacts	Great Plains	Otter Tail Power Company	Minnesota Power	CenterPoint Energy	Dakota Electric Association	Xcel Energy (Northern States Power)	Minnesota Energy Resources Corp.
	particular item relates to the COVID-19 pandemic.	the status of total customers in arrears and the amounts in Docket No. E,G999/CI-20-375. As arrears grow over time, many account balances may become too large for some customers to manage; which has increased their expected uncollectible accounts.	2019 general rate case.	rates, and therefore we will take care to deliberately analyze the incremental nature of the expenses incurred before recording those to the regulatory asset	providing a regulatory placeholder in case financial circumstances require action.	systems and processes are capable of doing the same for COVID-19 related expenses.	and deposits is anticipated. The Company stated that it will track uncollectible expense related to the COVID-19 pandemic as compared to the uncollectible expense reflected in its currently authorized rates. The difference between the authorized and actual ratio of uncollectible expense compared to revenues would be used to determine



COVID-19 Impacts	Great Plains	Otter Tail Power Company	Minnesota Power	CenterPoint Energy	Dakota Electric Association	Xcel Energy (Northern States Power)	Minnesota Energy Resources Corp.
							the amount of deferral.
<b>Operating Expenses (Labor and Non-labor)</b>	Great Plains agreed with the preliminary list of cost and revenue categories for tracking as provided in Attachment A of the Joint Petitioners' comments.	Significant amounts are being spent for PPE and other costs related to safe working practices and we are altering work practices to meet recommended social distancing, cleaning and other safe work practices; including other operating expense impacts (O&M, Labor, etc.) such as sequestration expenses as detailed in Attachment A.	The Company plan to Identify specific incremental operating costs that are incurred directly as a result of the pandemic which will be tracked via individual work order charges or accounting entries.	Procurement of personal protective equipment (PPE) and costs to sanitize facilities; technology costs associated with enabling remote work; overtime or contractor costs due to quarantined employees and other circumstances related to COVID-19; any government-required testing that utilities or employers may be required to undertake; additional staging sites necessary to create social distancing and	Early in the developing pandemic, Dakota Electric established a "COVID" project code. Dakota Electric is able to utilize the specific COVID project code and general ledger account structure combination to identify all net COVID expenses. The Cooperative stated that it has not incurred significant expenses and	To track incremental costs related to COVID-19, Northern State Power d/b/a, has set up a series of internal orders in the SAP General Ledger (SAP). The combination of the internal order and the cost element field in SAP allows the Company to identify the incremental cost by jurisdiction, business	MERC stated that its incurred COVID-19 O&M costs to date include PPE, cleaning & sanitizing costs, technology, administrative and financing and labor.

COVID-19 Impacts	Great Plains	Otter Tail Power Company	Minnesota Power	CenterPoint Energy	Dakota Electric Association	Xcel Energy (Northern States Power)	Minnesota Energy Resources Corp.
				ensure continuous operations; employee-related expenses; and incremental credit and collection costs incurred to disconnect customers once the moratorium is lifted.	believes it is still too early in their response to the pandemic to develop reasonable estimates of the total expense or revenue impacts that will be incurred.	area, resource type, and FERC account.	
<b>Revenue Impacts</b>	Great Plains stated that it may seek relief from the cap on surcharges under the decoupling mechanism to the extent gas usage is significantly lower due to the pandemic	Otter Tail expects revenue impacts as described in Attachment A to the Joint Petitioners' Comments.	Review reports from the Company's customer billing system that capture the amount of customer reconnection and late payment fees that have been waived.	Lost revenues in excess of the Company's decoupling margin; waived late fees; and waived reconnection fees.	COVID-19 financial impacts are determined as a calculation, with the net impact being stated in reference to a base amount being recovered in electric rates. Certain	Northern State Power d/b/a, has not identified any COVID-19 related incremental revenues. It states that it will follow the series of internal orders in the SAP General	MERC stated that it anticipates reduced sales revenue due to a reduction in utility service usage as the economy came to a virtual standstill as a result of the

COVID-19 Impacts	Great Plains	Otter Tail Power Company	Minnesota Power	CenterPoint Energy	Dakota Electric Association	Xcel Energy (Northern States Power)	Minnesota Energy Resources Corp.
	<p>and such under-recovery jeopardizes its ability to recover its cost of providing service, and proposed further that the loss of late payment charges be an item to be deferred.</p>		<p>Compare net customer load during the pandemic to the Company's Fuel Adjustment Clause forecast for 2020. Track and compare other potential revenue impacts incurred during the pandemic to the Company's 2019 rate review.</p>		<p>revenues and expenses have been included in the test year for a past general rate case. The Company stated that its identification of potential COVID baseline expenses, off-setting credits, and revenue impacts are described in Attachment A of the joint Petitioners' Comments.</p>	<p>Ledger to identify and track the incremental revenues.</p>	<p>COVID-19 pandemic. While residential usage may remain consistent or even increase as a result of work and travel restrictions, MERC noted that its commercial and industrial customers have reduced usage during the Stay At Home and Stay Safe MN orders as closure and social distancing requirements have been implemented and business</p>

COVID-19 Impacts	Great Plains	Otter Tail Power Company	Minnesota Power	CenterPoint Energy	Dakota Electric Association	Xcel Energy (Northern States Power)	Minnesota Energy Resources Corp.
							operations are idled.
<b>Off-sets</b>	Great Plains will not be seeking an adjustment for sales or transportation revenues as its revenues are currently subject to a decoupling mechanism – although it may seek relief from the cap on surcharges under the decoupling mechanism to the extent gas usage is significantly lower due to the pandemic		Review cost savings resulting from work flow and other changes realized during the pandemic as compared to the test year filed in the Company’s 2019 general rate case.	Savings attributable to the suspension of disconnections, as well as recognition of any reduced level of expense attributable to the change in operations caused by the state emergency. Additionally, although not expected to occur, any related reimbursements, state or federal relief would be included as an offset to the COVID impacts that may be included in a future request for recovery.	The credits include a review of our 2020 budget and anticipates that some activities will not take place due to restrictions resulting from the pandemic. These expenses and off-setting credits are identified as discrete dollar amounts.		MERC surmises that it may apply O&M cost savings to offset sales revenue losses.

COVID-19 Impacts	Great Plains	Otter Tail Power Company	Minnesota Power	CenterPoint Energy	Dakota Electric Association	Xcel Energy (Northern States Power)	Minnesota Energy Resources Corp.
	<p>and such under-recovery jeopardizes Great Plains' ability to recover its cost of providing service. In addition, the loss of late payment charges is a concern and is proposed to be an item to be deferred at this time.</p>						

**Appendix 2**  
**Joint Petitioners' Request for Deferred Accounting for COVID-19 Related Costs, Summary of Related Expenses tracked/estimated**

**Joint Petition of Utility Companies**

**Summary of Joint Petition**

The regulated Utilities filed a joint petition on April 20, 2020 that requested for Commission's authorization for each of the Petitioners to track incremental costs and expenses incurred as a result of COVID 19, defer such costs and record them into a regulatory asset, so that each utility preserves the option to request recovery in a future proceeding, subject to full Commission review.

**Quarterly Report Summaries**

COVID-19 Impacts	Great Plains	Otter Tail Power Company	Minnesota Power	CenterPoint Energy	Dakota Electric Association	Xcel Energy (Northern States Power)	Minnesota Energy Resources Corp.	Greater MN Gas, Inc.
<b>Uncollectible Exp.</b>	Experienced increase in the 2 <sup>nd</sup> quarter.	\$300K – \$500K	\$0 ***	\$2.5 million	\$596,000	\$2.0 million	\$0	\$0
<b>Operating Expenses (Labor and Non-labor)</b>	Experienced increase in the 2 <sup>nd</sup> quarter.	\$288,000	\$1.3 million	\$183,601	\$296,000	\$1.2 million	\$144,032	\$59,475
<b>Revenue Impacts</b>	Net Impact: \$54,000*	None Reported	\$478,646	None Reported	None Reported	None Reported	None Reported	\$21,044



COVID-19 Impacts	Great Plains	Otter Tail Power Company	Minnesota Power	CenterPoint Energy	Dakota Electric Association	Xcel Energy (Northern States Power)	Minnesota Energy Resources Corp.	Greater MN Gas, Inc.
<b>Off-sets</b>	Observed savings – Total amount unknown	Currently Unknown	\$(822,610)	\$(1.3 million)	\$(576,000)	\$(1.1 million)	None Reported	\$(95,586)
<b>A/R Aging Report**</b>	\$335,684	\$491,281	\$3.3 million	\$12.5 million	\$3.1 million	\$45.8 million	\$3.7 million	\$66,516

\* Per GP, as of June 30, 2020 the net impact of the cost increases offset by savings was approximately \$54,000. This does not reflect an increase in bad debt expense, which is unknown at this time. A/R balance has doubled since April, an indicator of a potential increase in bad debt expense.

\*\* A/R Aging balance, 61+ days (The 61+ balance is being used for consistency with the Utilities reported balances).

\*\*\* Minnesota Power bad debt amount is approximated at \$440,000, which is similar to the prior year amount.

**Note:** The A/R aging report amount reflected in the table is for analytic purpose. The incremental A/R balance could be indicative of the potential increase in bad debt expense to be written off by the Utilities.