MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Deliberation Outline

Meeting Dates	August 4, 2020 (Oral Argument) August 6, 2020 (Deliberations)	Agenda Item **2
Company	Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co.	
Docket Nos.	**G-004/GR-19-511** **In the Matter of the Petition by Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Authority to Increase Natural Gas Rates in Minnesota** **G-004/MR-19-512** **In the Matter of the Application of Great Plains Natural Gas Co. (Great Plains), a Division of Montana-Dakota Utilities Co., to Establish a New Base Cost of Gas and Reset the Purchased Gas Adjustment to Zero, to Coincide with the Implementation of Interim Rates in its General Rate Case Filing, in Docket No. G-004/GR-19-511**	

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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**

ALJ Report

1. Accept and adopt the ALJ's Findings of Fact, Conclusions of Law and Recommendations in its entirety.

2. Accept and adopt the ALJ's Findings of Fact, Conclusions of Law and Recommendations and include minor corrections/clarifications discussed in these briefing papers.

3. Accept and adopt the ALJ's Findings of Fact, Conclusions of Law and Recommendations with modification to one or more of the issues.

(Please see staff briefing papers, Vol. I, p. 4)

Volume II – Financial Issues

Industry Dues (Disputed)

200. Disallow the Minnesota Utility Investors (MUI) dues of $11,500. [Department, OAG, ALJ]

201. Disallow the Edison Electric Institute (EEI) dues of $464. [OAG, ALJ]

202. Allow the MUI and EEI dues. [Great Plains]

(Please see staff briefing papers, Vol. II, p. 5)

Incentive Compensation Annual Report/Potential Refund (Disputed)

203. Allow the $261,892 of incentive compensation included in Great Plains 2020 test year. [Great Plains, Department, ALJ]

204. Require Great Plains to file an annual report on incentive compensation and refund to ratepayers all incentive compensation amounts approved by the Commission and included in base rates that are not paid out to employees under the program. To determine the amount of actual incentive compensation paid that is recoverable from ratepayers, the Company shall apply the 15 percent cap to each employee's salary. The annual Incentive Compensation Report shall include at a minimum the following: [Department, ALJ]

    A. A description of the incentive compensation plan;
    B. The accounting of amounts of unpaid incentive compensation built into rates to be returned to ratepayers;
    C. An evaluation of the incentive plan's success in meeting its stated goals, including the payout ratio;

D. A proposal for refund, if applicable; and
E. Identification of each performance indicator and its associated scorecard information, such as the measure, the goal for various attainment levels (threshold, target, maximum), its funding weight and the actual result achieved; and to report the overall plan payout percentage attained relative to the target goal of 100%.

(Please see staff briefing papers, Vol. II, p. 8)

Rate Case Expense (Partially Disputed)

205. Great Plains shall use a four-year amortization period for its rate case expenses and shall track any over-recovery of rate case expenses for credit to the revenue requirement in its next rate case. [Department, ALJ]

206. Great Plains shall use a four-year amortization period for its rate case expenses. [Great Plains]

(Please see staff briefing papers, Vol. II, p. 9)

Test-Year Rate Base (Undisputed)

207. Approve the Department recommended adjustment for the 2019 year-end update resulting in an increase to the test-year rate base of $930,854. [Department, Great Plains agreed to]

(Please see staff briefing papers, Vol. II, p. 10)

Cash Working Capital (Undisputed)

208. Take no action.

209. Adopt the ALJ Finding No. 153.

210. Require Great Plains to conduct a lead/lag study and include a cash working capital component in its next rate case. [Staff added alternative.]

(Please see staff briefing papers, Vol. II, p. 11)

Benefits Expense (Undisputed)

211. Take no action.

212. Adopt the ALJ's Findings Nos. 118 through 124.

213. Require Great Plains to reduce its proposed test year test year benefits expense of $727,614 by $38,897, to a final figure of $688,717.

(Please see staff briefing papers, Vol. II, p. 12)

Subcontract Labor Expense (Undisputed)

214. Take no action.

215. Adopt the agreement between the Department and Great Plains.

216. Require Great Plains to reduce its proposed test-year subcontract labor expense by $81,397.

(Please see staff briefing papers, Vol. II, p. 14)

Conservation Improvement Program (CIP) Expense and Conservation Cost Recovery Adjustment (CCRA) Factor (Undisputed)

217. Approve Great Plains' proposed CIP expense of $566,621 as the basis for the CCRC base rate and require that any changes to the CCRA factor be determined in Great Plains 2020 annual CIP tracker and financial incentive proceeding. [Great Plains, Department]

218. Adopt the ALJ's Report with the above identified corrections to the ALJ's: Page 4 – Summary of Recommendation, Findings of Fact 134, and Recommendation 8.

(Please see staff briefing papers, Vol. II, p. 17)

Continuation of Gas Utility Infrastructure (GUIC) Rider (Undisputed)

219. Take no action.

(Please see staff briefing papers, Vol. II, p. 18)

Bonus Expense (Undisputed)

220. Take no action.

(Please see staff briefing papers, Vol. II, p. 19)

Interest Expense Synchronization (Undisputed)

221. Take no action.

222. Require Great Plains to update the interest synchronization adjustment based on the Commission's decisions in this case.

(Please see staff briefing papers, Vol. II, p. 20)

Base Cost of Gas and Related Financial Adjustments (Undisputed)

223. Adopt Great Plains' updated base cost of gas as reflected in its July 8, 2020 Updated Base Cost of Gas (Compliance) filing and the Company's July 8, 2020 financial schedules reflecting the ALJ's recommendations.

and

224. Adopt Great Plains' related adjustments to late payment interest income and uncollectible accounts expense as reflected in the Company's July 8, 2020 financial schedules reflecting the ALJ's recommendations.

225. Leave in place the $13,869,562 base cost of gas previously approved for interim rates.

(Please see staff briefing papers, Vol. II, p. 22)

Volume III - Cost of Capital

Capital Structure and Cost of Short and Long-Term Debt

301. Adopt the ALJ's recommendation of the following capital structure:

Capital	Percentage
Short Term Debt	4.053%
Long Term Debt	45.132%
Equity	50.815%
	100%

302. Approve the ALJ recommendation of a Return on Short Term Debt of 3.693% and Return on Long Term Debt of 4.712%.

303. Adopt the ALJ recommended Findings of Fact 159 through 167 in support of the recommended capital structure and cost of debt.

(Please see staff briefing papers, Vol. III, p. 53)

Cost of Equity

ALJ

304. Adopt the ALJ recommendation of a Return on Equity of 9.67%, inclusive of 0.05% Flotation costs. (ALJ, Great Plains)

305. Adopt Findings of Fact 167 through 300 in support of the ALJ recommended Return on Equity.

(Please see staff briefing papers, Vol. III, p. 53)

Great Plains

306. Adopt the ALJ recommendation of a Return on Equity of 9.67%, inclusive of 0.05% Flotation costs. (Great Plains)

307. Adopt modified Findings of Fact to support Exceptions of Great Plains.

(Please see staff briefing papers, Vol. III, p. 53)

Department

308. Adopt the Department's recommendation of a Return on Equity of 8.82%, inclusive of 0.05% Flotation costs. (Department)

309. Adopt Findings of Fact 167 through 300 as modified by the Department in Findings 271 through 278.

> 271. In sum, the Administrative Law Judge finds that ~~gives significant weight to~~ the DOC-DER's CAPM results of 9.38 percent confirms the reasonableness of its DCF results because it ~~This amount~~ is squarely within the range of DCF results in both Mr. Addonizio's initial and final DCF analyses (ranging from 8.03-9.75 percent and 7.90 – 9.67 percent, respectively), ~~falling closing to the high mean range~~.
>
> ~~272. It is also more consistent with Ms. Bulkley's application of Mr. Addonizio's DCF analysis when applied to GP's Proxy Group (which included the three companies excluded by Mr. Addonizio). Using Mr. Addonizio's methodology for DCF, but applied to GP's larger proxy group, would result in a Two Stage Growth DCF mean result of 9.47 percent before the application of flotation costs, and 9.52 percent after the addition of Mr. Addonizio's recommended flotation costs of five points.~~

~~273. When using the GP Proxy Group and adjusting the Value Line earning growth rate for Northwest Natural, as recommended by Mr. Addonizio, the mean Two Stage Growth DCF is 9.58 percent before the addition of flotation costs, and 9.63 percent after the addition of five basis points flotation costs. In other words, applying Mr. Addonizio's methodology to GP's Proxy Group nets results closer to Mr. Addonizio's CAPM than his own Two Stage Growth DCF results for the DOC DER Proxy Group.~~

274. In addition to her DCF, CAPM, and other quantitative analyses, Ms. Bulkley undertook a qualitative review to determine a final ROE within the range of ROE results indicated in her mathematical analyses. She described this as reviewing GP's "risk profile." Specifically, Ms. Bulkley considered GP's small size, its customer concentration, capital expenditures, and regulatory environment when reaching her final ROE decision from the range of results presented in her quantitative analysis. Consistent with Great Plains' previous rate case, Mr. Addonizio ~~did not engage in this~~ concluded that type of additional analysis of qualitative factors is unreasonable ~~and simply selected the mean ROE from his Two Stage DCF equation~~.

~~275. When deciding on a ROE within a range identified by the quantitative methods described herein (DCF, CAPM, etc.), is reasonable to look to qualitative factors that may justify an upward or downward departure from the mean quantitative results. For example, a company with a history of service issues or financial mismanagement should not be rewarded with an upward departure of ROE from that suggested by the quantitative economic analyses. At the same time, companies that face additional obstacles or risks from their publicly traded proxy group counterparts may be entitled to an upward departure to ensure that they are able to raise capital in the competitive market, in light of such additional risks. There are some risks or factors that are simply not captured by a mathematical equation or quantitative analysis. This is particularly true when comparing a small, non publicly traded company to a large, publicly traded company.~~

276. The record in this proceeding shows that Great Plains is, in fact, ~~significantly~~ smaller than the publicly-traded proxy companies used in the experts' DCF analyses. ~~Unlike large, publicly traded companies, small utilities are less able to withstand adverse events that affect their revenue and expenses, such as weather variability, the loss of a large customer, or reduced demand.~~

~~277. In addition, GP has risk related to the concentration of industrial customers in its service territory focused on agriculture or the production of ethanol. Located in western Minnesota, GP is highly dependent upon its industrial/agricultural customer base, which represents 60.94 percent its 2017 deliveries. Its residential and commercial customers are also dependent~~

~~on that same industrial base. Consequently, economic events that impact these agricultural and ethanol producers inevitably impact GP's entire customer base.~~

~~278. The Commission recently determined that it is necessary to account for differences in investment risk between the proxy group and the utility for which the return is being set. In its May 2017 Order addressing Otter Tail Power Company's ROE, the Commission found that the higher business risks faced by Otter Tail (which included small size, equity price volatility, low institutional ownership, and trading volume), relative to the proxy group companies, supported a return above the mean DCF results. The Commission stated:~~

> ~~The record in this case establishes a compelling basis for selecting an ROE above the mean average within the DCF range, given Otter Tail's unique characteristics and circumstances relative to other utilities in the proxy group. These factors include the company's relatively smaller size, geographically diffuse customer base, and the scope of the Company's planned infrastructure investments. The Commission has also considered Otter Tail's recognized [sic] the Company's performance in completing major infrastructure projects substantially under budget, its history of providing reliable service with stable rates, and its record of effectively serving the needs of its customers, as measured by multiple customer satisfaction metrics.~~

(Please see staff briefing papers, Vol. III, pp. 53-55)

Commission Determined Alternative

310. Adopt another Return on Equity as determined by the Commission.

311. Adopt Findings of Fact 167 through 300 as modified to support a Return on Equity as determined by the Commission.

(Please see staff briefing papers, Vol. III, p. 55-56)

Overall Cost of Capital

If the Commission has made specific findings regarding capital and their component costs, it does not need to make a specific finding on the overall cost of capital. However, to avoid possible confusion or questions regarding the Commission's decision, it may want to adopt a specific overall cost of capital (Rate of Return) for this proceeding.

Some Commission alternatives regarding the overall cost of capital are:

312. Adopt an overall cost of capital of 7.216 percent. (GP, ALJ)

313. Adopt an overall cost of capital of 6.758 percent. (Department)

314. Determine that some other overall cost of capital is appropriate and have the staff calculate the proper value, based on the component parts, for inclusion in the order.

(Please see staff briefing papers, Vol. III, p. 56)

Volume IV – Sales Forecast and Class Cost of Service Study

Sales Forecast

400. Adopt the ALJ's recommendations:

a. accept GP's sales forecast for test year 2020 as reasonable

b. require GP to retain the data for customers even if there is a change in the rate structure; and

c. continue the compliance requirements set forth in Paragraph 16 of the 2015 Rate Case Order;

and incorporate the following corrections/modifications to the ALJ's Findings into the Order:

d. correct the following typographical errors in Para 305:

2020 projected total customers: ~~22,02807.40~~ 22,028 customers,
2020 projected total transportation: ~~4,6675,000~~ 4,675,000 Dk;

e. modify Para. 324 by incorporating the Department's modifications as follows:
324. Because of the lack of data available before 2004 and between 2004 and 2007, the DOC-DER also recommends that the Commission require GP to retain customer data such that, in the event the Company proposes different rate structures in the future, past data would remain available~~. to compare the different rate structures in subsequent rate cases~~. That is, going-forward, just because the Company decides to change the rate structure does not mean the customer's historical consumption data has changed or becomes unusable. GP agrees to this recommendation.

401. Other action by the Commission.

(Please see staff briefing papers, Vol. IV, pp. 12-13)

Class Cost of Service Study

402. Adopt the ALJ's recommendations

a. based upon the agreement between GP and the Department, the Commission does not approve any of the CCOSSs that GP has presented in this case;

b. the Commission will accept Great Plains' agreement to incorporate the following changes to its proposed CCOSS in its next general rate case:

(1) classify and allocate Land and Land Rights (FERC Account No. 374) on the same basis as Distribution Plant;
(2) classify and allocate Structures and Improvements (FERC Account No. 375) on the same basis as Distribution Plant;
(3) classify and allocate Maintenance of Structures and Improvements (FERC Account No. 886) on the same basis as Distribution Plant;
(4) classify and allocate Other Equipment (FERC Account No. 387) on the same basis as Distribution Plant;
(5) identify the customer classes that use special and expensive installations of measuring and regulating station equipment located on the distribution system and allocate the costs of Industrial Measuring and Regulating Station Equipment (FERC Account No. 385) and Maintenance of Measuring and Regulating Station Equipment-Industrial (FERC Account No. 890) to only those classes;
(6) identify the customer classes that use large measuring and regulating stations located on local distribution systems and allocate the costs of Measuring and Regulating Station Expenses-Industrial (FERC Account No. 876) to only those classes; and
(7) allocate Maintenance of Services (FERC Account No. 892) on the same basis as Services (FERC Account No. 380);

c. modify the ALJ's finding Para 350 by incorporating the modification suggested by the Department:

> 350. As a result, the DOC-DER recommended against approval of the two minimum-size methods, as initially proposed filed by GP (MS1 and MS2). The DOC-DER also recommended that GP provide, in its rebuttal testimony, an improved minimum-size method (the MS3) using the current unit replacement cost (per foot) of the installed distribution pipes for each pipe type and size. Finally, the DOC-DER recommended that GP provide a revised ~~medium~~ minimum-size CCOSS using the outcome of the revised minimum-size method, with the adjustments to the classification and/or allocation of the FERC accounts that the DOC-DER recommended.

and

d. modify the ALJ's finding Para 350 by incorporating the modification suggested by the Department:

> 356. Finally, the Commission should require the Company to perform an improved minimum-size CCOSS using reliable and supported per-foot replacement costs for each type and size of installed distribution pipes, and file such a study in the next general rate case, as recommended by the DOC-DER.

403. Other action by the Commission.

(Please see staff briefing papers, Vol. IV, pp. 29-30)

Volume V – Rate Design & Revenue Decoupling

Class Revenue Apportionment

501. Approve the revenue apportionment as recommended by the ALJ in Finding 396. ALJ)

502. Approve the modifications to the ALJ Report, Finding 396, as proposed by Great Plains.

503. Take other action.

(Please see staff briefing papers, Vol. V, p. 6)

Basic Customer Service Charges

511. Approve Great Plain's proposed rates for the Residential, Small Firm and Large Firm General Service classes as recommended by the ALJ.

512. Reject Great Plain's proposed rate increases.

(Please see staff briefing papers, Vol. V, p. 10)

Residential and Firm General Service – Bill Calculation

521. Approve Great Plains' billing method proposal.

522. Reject Great Plains' billing method proposal.

523. Take other action.

(Please see staff briefing papers, Vol. V, pp. 11-12)

Small Interruptible

531. Approve the rate increases to Small Interruptible Sales and Small Interruptible Transport as proposed by Great Plains and recommended by the ALJ.

532. Do not approve the rate increases to Small Interruptible Sales and Small Interruptible Transport as proposed by Great Plains and recommended by the ALJ.

533. Take other action.

(Please see staff briefing papers, Vol. V, p. 12)

Large Interruptible and Grain Drying

541. Modify paragraphs 402 and 418 of the ALJ Report, as they pertain to Interruptible Grain Drying, to replace the figure of $350.00 with $305.00.

542. Adopt the findings of the ALJ and establish the rates for Interruptible Grain Drying, Large Interruptible Transport, and Large Interruptible Sales at, respectively, $400.00, $400.00, and $355.00.

543. Adopt the findings of the ALJ and establish the rates for Interruptible Grain Drying, Large Interruptible Transport, and Large Interruptible Sales at, respectively, $450.00, $560.00, and $500.00.

544. Take other action.

(Please see staff briefing papers, Vol. V, p. 13-14)

Margin Sharing Credit

551. Approve Great Plains' Margin Sharing Credit as recommended by the ALJ.

552. Reject Great Plains' Margin Sharing Credit proposal.

(Please see staff briefing papers, Vol. V, p. 17)

Customer Service Extension Tariff

561. Approve Great Plains' LARR and MAI changes and require Great Plains to update the LARR and MAI changes to reflect the Commission's final order on the Company's proposed margin sharing credit and any changes to the GUIC revenues.

562. Take other action.

(Please see staff briefing papers, Vol. V, p. 19)

Revenue Decoupling

Extension of the RDM Pilot

571. Extend Great Plains RDM Pilot indefinitely. (GP Initial Filing)

572. Extend Great Plains RDM Pilot through December 31, 2021. (GP, DOC, ALJ)

573. Extend Great Plains RDM Pilot through a different date.

574. Do not extend Great Plains RDM Pilot.

Removal of Large Interruptible Class

575. Approve the removal of the Large Interruptible Class effective January 1, 2021. (GP, DOC, ALJ)

576. Approve the removal of the Large Interruptible Class effective a different date.

577. Do not approve the removal of the Large Interruptible Class.

Energy Savings Threshold

578. Do not establish an energy savings threshold. (GP, DOC, ALJ)

579. Establish an energy savings threshold of 13,000 Dk. (DOC alternate)

580. Establish a different energy savings threshold.

(Please see staff briefing papers, Vol. V, p. 22-23)

Volume I – General Housekeeping and Compliance Issues

901. State that the final order in this docket shall contain summary financial schedules including: a calculation of Great Plains' authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Direct parties to work with Commission staff to prepare such schedules for inclusion in the Order, should modifications be necessary to reflect the Commission's final decision.

902. Require Great Plains to make the following compliance filings within 30 days of the date of the final order in this docket:

   a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:

      i. Breakdown of Total Operating Revenues by type;
      ii. Schedules showing all billing determinants for the retail sales (and sale for resale) of natural gas. These schedules shall include but not be limited to:
         1. Total revenue by customer class;
         2. Total number of customers, the customer charge and total customer charge revenue by customer class; and
         3. For each customer class, the total number of commodity and demand related billing units, the per unit of commodity and demand cost of gas, the non-gas margin, and the total commodity and demand related sales revenues.
      iii. Revised tariff sheets incorporating authorized rate design decisions;
      iv. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.

   b. A revised base cost of gas, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.

   c. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.

   d. Direct Great Plains to file a computation of the CCRC based upon the decisions made herein for inclusion in the final Order. Direct Great Plains to file a schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective

e. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest to affected customers.

903. Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on Great Plains' proposed customer notice.

904. Move that the written order memorializing these decisions may rearrange, reorganize, or renumber the items included as necessary for clarity; standardize or correct abbreviations, phraseology, punctuation, and format; and correct errors as necessary for consistency with the Commission's decision and may amend the ALJ's findings as necessary to be consistent with the Commission's decision.

905. Move that the Commission direct staff to draft an order consistent with the Commission's decisions with such changes necessary for organization, consistency, and clarity.

(Please see staff briefing papers, Vol. I, p. 4)