MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	November 7, 2019	Agenda Item 1**
Company	Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co.	
Docket No.	**G-004/M-19-273**	
	In the Matter of the Petition of Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Approval of a Gas Utility Infrastructure Cost (GUIC) Adjustment True-up Report for 2018, 2019 Revenue Requirement and Revised Adjustment Factors**.**	

Issues

1. Should the Commission approve Great Plains' request to suspend its GUIC rider effective January 1, 2020?
2. Should the Commission approve Great Plains' request to move rider costs as of December 31, 2019 into interim rates, effective January 1, 2020?
3. Should the Commission approve Great Plain's request for authorization to file a GUIC true-up in Spring 2020 for any under- or over-recovered costs in its GUIC tracker account as of December 31, 2019?

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✓ **Relevant Documents**	**Date**
Great Plains – Initial Filing	April 15, 2019
Great Plains – Request to Implement Revised GUIC Adjustment Factors	September 6, 2019
Department of Commerce – Comments	September 13, 2019

Relevant Documents	**Date**
Great Plains – Reply Comments	September 23, 2019

II. Statement of the Issues

- Should the Commission approve Great Plains' request to suspend its GUIC rider effective January 1, 2020?
- Should the Commission approve Great Plains' request to move rider costs as of December 31, 2019 into interim rates, effective January 1, 2020?
- Should the Commission approve Great Plain's request for authorization to file a GUIC true-up in Spring 2020 for any under- or over-recovered costs in its GUIC tracker account as of December 31, 2019?

III. Background

On December 21, 2016, Great Plains Natural Gas Co. (Great Plains, GP, or the Company) submitted a petition requesting authorization for a Gas Utility Infrastructure Cost (GUIC) rider, pursuant to Minn. Stat. § 216B.1635 (GUIC Statute).

On October 6, 2017, the Minnesota Public Utilities Commission (Commission) issued an order[1] approving the creation of a Gas Utility Infrastructure Cost rider and proposed adjustment based on the Company's 2017 revenue requirement. Every year, Great Plains is required to file a petition to true-up the prior year's GUIC-related costs and surcharge revenue and set the GUIC rate adjustment factor for the upcoming year.

On April 15, 2019, in this docket, Great Plains filed its true-up report for 2018 and made its request for the 2019 revenue requirement and revised rate adjustment factors. However, on September 6, 2019, Great Plains submitted a letter requesting that the Commission instead suspend its GUIC for all customers due to its imminent filing of a general rate case. The Company requested that the GUIC be suspended on January 1, 2020, coincident with interim rates going into effect in the rate case. This would have the effect of moving cost recovery for pending GUIC projects into interim rates, and ultimately into base rates.

On September 13, 2019, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments largely in support of Great Plains' request to suspend the GUIC rider and move costs into interim rates. The Department expressed concerns about the proration of accumulated deferred income taxes (ADIT) and requested additional information from the Company, specifically requesting that the Company recalculate using a method commonly referred to as "the Deloitte Method," which will be discussed in greater detail in the Parties' Comments section of these staff briefing papers.

[1] Order Approving Rider And Rate Adjustment Factors, And Requiring Compliance Filing, In the Matter of the Petition of Great Plains Natural Gas Co. for Approval of a Gas Utility Infrastructure Cost (GUIC) Tariff and Adjustment, Docket No. G-004/M-16-1066

On September 23, 2019, Great Plains submitted reply comments providing the requested calculation (for informational purposes) but noted that it disagrees with the Department and believes that its calculation of ADIT proration was correct as filed.

On September 27, 2019. Great Plains submitted its general rate case, in Docket No. G-004/GR-19-511.

IV. Parties' Comments

A. Great Plains – Request to Suspend GUIC

Great Plains filed its initial request for a 2018 true-up and 2019 revenue requirement on April 15, 2019. The total requested amount of cost recovery (including prior period true-ups) from October 2019 to September 2020 was $1,272,321. However, on September 13, 2019, Great Plains filed a letter requesting to suspend the GUIC due to its imminent rate case.[2]

GUIC Costs and Recoveries[3]

2017 Revenue Requirement	$395,916
2018 Revenue Requirement	780,496
Less: Actual Recoveries (Nov 2017 - Dec 2018)	571,363
Under/(Over) Recovery- Dec 2018	605,049
Less: Recoveries (Jan 2019 - Sept 2019)	404,444
Subtotal - GUIC Under Recovery	200,605
2019 Projected Revenue Requirement	1,071,716
Total Required Recovery - Oct 2019 to Sep 2020	1,272,321

Great Plains instead requests to recover the GUIC costs through interim rates, effectively moving the GUIC projects into base rates.[4]

> … This general rate case filing will include the GUIC projects for 2019 referenced above as well as the projected 2020 PVC replacement projects that would have been included in the 2020 GUIC filing. In light of the timing of Great Plains' general rate case filing, Great Plains now requests that the Commission approve the 2019 GUIC projects and the associated revenue requirement for those projects as submitted in the Company's April 15 filing. However, the Company requests that the Commission suspend the GUIC adjustment rate coincident with the implementation of interim rates in the upcoming natural gas rate case. Great Plains will be requesting to implement interim rates on January 1, 2020 so that the implementation of interim rates corresponds to the start of the test year. This would have the effect of moving the GUIC costs as of December 31, 2019 into interim rates effective January 1, 2020. The suspension of a rate adjustment under

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[2] The Department requested and was granted extensions on its comments on May 14, 2019, June 13, 2019, July 12, 2019, and August 12, 2019.

[3] Great Plains, Petition, p. 1

[4] Great Plains, Letter filed September 6, 2019, pages 1-2

> the GUIC at the same time interim rates in the upcoming rate case are implemented will ensure that there is no overlap in recovery of the GUIC projects and provide a logical means of moving the GUIC projects through 2020 into base retail rates as part of the rate case.
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> [footnote omitted]

Great Plains also proposes to true-up for the 2019 revenue requirement and to defer the true-up balance to the subsequent GUIC filing, to be submitted in April 2020, in lieu of a rate adjustment October 1, 2019.

B. Department Comments

The Department reviewed Great Plains filing not only for its request to suspend its GUIC, but also reviewed the proposed annual revenue requirements in the Petition due to the fact that the Commission will still need to approve Great Plains' request between October 1, 2019 and December 31, 2019.

1. Department Review of Great Plain's Request to Suspend GUIC

The Department agrees with Great Plains that this proposed approach is reasonable. Having all of the costs for 2020 recovered in one place avoids concerns about double-recovery of costs. The Department also agrees with Great Plains that the modification request does the following:

> • suspends the GUIC rider beginning January 1, 2020;
> • moves rider costs as of December 31, 2019 (undepreciated rate base and O&M expenses) into interim rates, effective January 1, 2020; and
> • focuses the true-up filed in Spring of 2020 on any under- or over-recovery in the rider (tracker balance) as of December 31, 2019.

2. Department Review of Great Plains' Initial Petition

The Department noted that Great Plains' initial petition included all of the filing requirements as specified in subdivisions 2, 3, and 4 of the GUIC Statute. The Department also reviewed that the projects requested under the GUIC rider met the definitions of eligible projects under the GUIC Statute.[5]

> The Department reviewed Great Plains' description of the costs/projects, particularly the information provided in Exhibit B of the Company's Petition, and confirmed that the costs/projects satisfy the GUIC Statute definitional requirements. The costs for which Great Plains is requesting recovery are limited to the DIMP capital costs for replacing polyvinyl distribution mains and services. Great Plains' petition also clarifies that the costs are limited to projects incurred for Great Plains' Minnesota customers.

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[5] Department Comments, filed September 13, 2019, Page 7

Great Plains proposed to continue using the 7.032% rate of return for calculating the annual GUIC revenue requirement approved in the Company's previous rate case. The Department supports this rate of return.

The Department expressed some concern that the projects being completed under the GUIC rider did not include removal costs and/or an adjustment to rate base. The Department stated that it would be possible to review these types of costs in Great Plains' upcoming rate case to ensure the Company only recovers its costs once.

The Department requested that Great Plains utilize what is commonly referred to as the "Deloitte Method" to calculate its ADIT proration.[6]

> The Department notes that Xcel Energy proposed an alternative prorated ADIT methodology based on consultations with Deloitte Tax Services in its May 25, 2018 and July 16, 2018 supplemental reply comments, in Docket No. E-002/M-17-797 (17-797). Under this alternative prorated ADIT methodology, commonly referred to as the Deloitte method or Xcel method, each forecasted month is considered a separate test period for proration purposes. The Deloitte method significantly reduced the effects of proration on Xcel Energy's ADIT balances and annual revenue requirements in 17-797. As a result, the Department asked Great Plains, in Department Information Request No. 4, to provide the effects of ADIT proration on its annual revenue requirements using the Deloitte method…
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> …the Department further reviewed Great Plains' and Xcel Energy's prorated ADIT calculations and resulting annual revenue requirements using the Deloitte methodology. The Department's review indicates that Great Plains used beginning monthly prorated ADIT balances in its annual revenue requirement calculations instead of re-setting its beginning monthly ADIT balances on a non-prorated basis; in other words, Great Plains carried forward its monthly prorated ADIT balances to the following month, thus compounding the effects of monthly proration on its ADIT balances. In contrast, and consistent with the concept that each month represents separate test periods, Xcel Energy re-set its beginning monthly ADIT balance on a nonprorated basis since the previous monthly test period is considered historical under the Deloitte method.

Lastly, the Department recommended that the Company provide its excess ADIT balance in reply comments.

C. Great Plains Reply to the Department's Comments

Great Plains disagreed with the Department's analysis on ADIT proration.[7]

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[6] Id. at 13-14

[7] Great Plains, Reply Comments, filed September 23, 2019, page 2

As noted in the response to information request number 4, provided on July 30, 2019, the ADIT balances were accepted as filed in the Commission's Order in Docket No. G004/M-18-282, dated February 12, 2019, which measured the ADIT balances based on the annual proration method. In response to this information request, the Deloitte method was calculated for informational purposes only. The detail of these calculations was provided, and the Department commented that Great Plains did not re-set the beginning monthly ADIT balance on a non-prorated basis.

Great Plains disagrees and provides Attachment A pages 2-9 which outlines the ADIT balance calculation using the Deloitte method with a modified presentation that clarifies the balances in Response No. 4 were calculated consistently with those presented in Xcel's May 25, 2018 Supplemental Reply Comments. The attached calculations show the month end ADIT balance with the Deloitte method proration, and with no proration. The monthly beginning balances are reset as if no proration was used, and the "Month End Bal. – with proration:" balance reconciles to the information in the Excel file provided in Response No. 4. Based on this, Great Plains believes its calculation of the Deloitte Method provided on July 30, 2019 is consistent with the calculations used by Xcel and that the difference in the 2019 revenue requirement is ($2,212) and ($950) for the 2018 true-up as shown on Attachment A, page 1 and initially provided in Response No. 4.

Great Plains also stated that its excess ADIT balance for assets included in the GUIC Rider at December 31, 2018 totals ($28,985).

V. Staff Analysis

A. The Deloitte Method

The issue of ADIT proration has been discussed in nearly every rider filing over the last few years. The utilities prefer to use forecasted data to calculate their revenue requirement, and maintain that ADIT must be prorated in order to meet IRS normalization rules, based on readings of certain IRS private letter rulings (PLRs). The Department's position generally has been that a utility need not prorate ADIT if it uses a historical test period, which reduces the revenue requirement to the benefit of the ratepayers.

Xcel Energy, in several of its rider filings in 2018, engaged Deloitte Tax Services to address this common issue and introduced Deloitte's suggestion as a potential alternative. This method, commonly referred to as the Deloitte Method, makes three modifications to the ADIT proration calculation.

1) Treat each forecast month as a test period since the revenue requirements in these riders are calculated monthly. This allows the monthly ADIT balance to be reset to its un-prorated beginning balance and only the monthly activity receives the proration.

2) Then apply a mid-month convention for the proration factors in each month.

3) Remove ADIT from the beginning-of-month and end-of-month rate base average, since the proration is itself a form of averaging.

B. ADIT Proration in the Instant Petition

Great Plains and the Department disagree on the method used to calculate ADIT proration. Great Plains notes that in its previous GUIC, Docket G-004/M-18-282, the Commission approved Great Plains' GUIC rider which utilized the Company's annual method of calculating ADIT proration consistent with the methodology used in the instant petition.

The Commission, in other rider proceedings, expressed an interest in exploring the Deloitte method in greater detail due to it allowing the utilities to forecast while minimizing the ADIT proration impact to ratepayers but has not ordered its use in any utility rider filing to date. For example, in the Commission's September 27, 2019 Order[8] on Xcel's transmission cost recovery rider, the Commission encourage[d] the Department to work with Xcel on [determining] the effectiveness of the Deloitte method." The Department stated it would withhold its final recommendation until after the Company provided the Deloitte calculation but has otherwise expressed support for utilizing this method in its comments.

VI. Decision Options

1. Approve Great Plains' request to suspend its GUIC rider coincident with the implementation of interim rates in the Company's general rate case, in Docket No. G-004/GR-19-511. (Great Plains, Department)

<u>ADIT Proration</u>

2. Require Great Plains to update the GUIC revenue requirement in both its GUIC filing and its interim rate petition (Docket No. G-004/GR-19-511) calculating ADIT proration using the Deloitte method. (Department, Implied)

   <u>OR</u>

3. Take no action (Great Plains)

[8] Order Authorizing Rider Recovery, Setting Return On Equity, And Setting Filing Requirements, In the Matter of the Petition of Northern States Power Company for Approval of the Transmission Cost Recovery Rider Revenue Requirements for 2017 and 2018, and Revised Adjustment Factor, Docket No. E-002/M-17-787, p. 10