~~April 15, 2015~~
April 22, 2015

Dakota Electric Association - 2014 Rate Case

Minnesota Public Utilities Commission
Docket No. E-111/GR-14-482

Oral Argument & Deliberations: April 23, 2015, 9:30 am

Revised Deliberation Outline

1. ALJ Report

A. Adopt the ALJ's Report and recommendation in its entirety. or

B. Adopt the ALJ's Report and recommendation with modification to one or more of the following issues and to the extent the ALJ's Report is consistent with the decisions made by the Commission at this meeting. The written order memorializing these decisions may clarify, as necessary, whether, and the extent to which, the Commission is adopting, clarifying, amending, modifying, not accepting or rejecting particular ALJ findings and recommendations.

Note: Staff has attempted to clearly identify the parties' positions next to the decision alternatives in the deliberation outline. If the Commission adopts the ALJ's Report and recommendation in its entirety and does not wish to modify the ALJ's recommendation or modify (or clarify) the ALJ's findings or conclusions, it does not need to separately affirm the ALJ's findings, conclusions or recommendation decision under each specific issue. Please also note that when only one alternative is listed, that does not mean that is the only alternative available. Every decision has a theoretical alternative. It usually means that parties did not provide a clear alternative to the one they recommended.

2. Extension of the Suspension Period for Proposed Final Rates and the Deadline for the Commission to Issue its Final Determination

(Please see staff briefing papers, p. 6)

A. Extend the suspension period for proposed final rates until the Commission issues its final determination in this matter. Find the Commission has insufficient time to make a final determination if the rates are suspended for a 10-month suspension period because of the need to make a final determination in another pending case (the Xcel Electric rate case, in Docket E-002/GR-13-868) involving changes in general rates. Accept Dakota Electric's offer of a limited statutory waiver and plan on issuing its order by early July, or

B. Extend the suspension period for proposed final rates in this matter for the same reasons as described in the first alternative but for a different or specific length of time not to exceed ninety days. or,

C. Extend the suspension period for proposed final rates until Monday, June 8, or approximately 45 days from the date of the Commission's April 23 meeting for the same reasons described in alternative (2-a).

3. Staffing Changes

(Please see staff briefing papers, pp. 16-18)

A. Approve Dakota Electric's requested test year payroll expense as reasonable and determine no adjustment is necessary; (DEA. This alternative does not adjust the DEA/DOC settlement agreement.) **or**

B. Disallow the annualization wage adjustment for existing positions vacant for part of the year and disallow the salary costs for an additional position, which together result in a $465,435 reduction to the test year payroll expense and a corresponding $224,992 reduction to employee benefit costs. Modify ALJ Finding No. 68 as follows:

> 68. ~~However, t~~The OAG's proffered exclusion of $690,427 for the annualization adjustment should be adopted. DEA's 2013 base year payroll expense is higher than any of the previous three years, and the company has not demonstrated that an additional upward adjustment is reasonable. ~~is inconsistent with the amount requested by DEA. According to DEA witness Douglas Larson, DEA is seeking an annualization adjustment of $397,225 for 16 partially filled positions plus $68,210 for a new position added in 2014. The Administrative Law Judge recommends granting DEA's request for an increase of $68,210 to cover additional wages for the new added position in 2014, but disallowance of the increase of $397,225 to adjust for partial staffing in 2013, for a net disallowance of $329,015.~~ (OAG); **or**

C. Adopt the ALJ's finding that the increase to payroll expense for the additional position is reasonable, but disallows the adjustment made to reflect a full employee complement with no part-year vacancy of existing positions; (ALJ) **and**

Modify the ALJ Report Finding No. 68 for a technical correction of the calculated adjustment, to be a $397,225 reduction to the test year payroll expense and an additional $192,019 reduction to the corresponding test year employee benefit costs, consistent with the ALJ's described recommendation, to read as follows:

> 68. ~~However, the OAG's proffered exclusion of $690,427 for the annualization adjustment is inconsistent with the amount requested by DEA.~~ According to DEA witness Douglas Larson, DEA is seeking a~~n~~

payroll annualization adjustment of $397,225 for 16 partially filled positions plus $68,210 for a new position added in 2014. The Administrative Law Judge recommends granting DEA's request for an increase of $68,210 to cover additional wages for the new added position in 2014, but disallowance of the increase of $397,225 to adjust for partial staffing in 2013~~, for a net disallowance of $329,015~~. The Commission also disallows the corresponding test year increase of $192,019 for benefit costs associated with the denied partial staffing wage adjustment. (Staff)

Revisions to ALJ Findings

D. Modify ALJ report Finding No. 63 for clarity:

> 63. DEA requested recovery of increased costs in payroll expenses, including an annualization adjustment covering 16 employee positions vacant for a portion of the test year (2013), as well as the addition of one new employee position in 2014. According to DEA, it paid out $643,269 in actual wages for the 16 partially filled positions in 2013 instead of $1,040,494 in wages that would have been paid if the positions had all been filled for the entire year. DEA also added one new position (Powerline Design Technician) in 2014, which has an annual wage of $68,210. Based on the new additional position and total wages necessary to fully fund the 16 positions for an entire year, DEA requested an increased annualization adjustment of $465,435 and associated benefits. [*footnotes omitted*] (OAG)

E. Modify ALJ report Finding No. 64 for clarity by striking the first sentence in its entirety:

> 64. ~~The OAG, however, valued DEA's annualization adjustment at $690,427 based on the wages claimed by DEA plus the OAG's calculation of the benefit expense for the 16 partially filled positions ($589,244) and one new added position ($101,183).~~ The OAG objected to DEA's annualization adjustment for two reasons. First, the OAG claimed DEA failed to show the increase is "a known and measurable change" because DEA's request covers positions "it hopes to fill or to remain filled, rather than positions ... it knows will be filled." The OAG claimed the additional "incremental position" for a new Powerline Design Technician "appears to inflate compensation expenses." Second, the OAG argued the requested increase cannot be reconciled with the general trend of DEA's payroll expense, which has been relatively flat for the past three years. Between 2010 and 2013, the OAG claimed the average change in DEA's annual payroll expense has been less than one percent as detailed in the table below: [*footnotes and table omitted*] (OAG)

Support Hours Formerly Provided to Discontinued Operations

F. Adopt the ALJ's recommendation that no reduction to payroll expense is warranted for employee hours formerly billed to DEA's discontinued, non-regulated operations; (ALJ, DEA. This alternative does not adjust the DEA/DOC settlement agreement.) **or**

G. Approve the OAG's recommended $57,700 test year reduction to remove the payroll expense and related benefit costs associated with the employee hours formerly expended to support DEA's discontinued, non-regulated operations. (OAG)

4. Travel, Entertainment and Employee Expenses

(Please see staff briefing papers, p. 24-25)

Travel Cost for Election Campaign

A. Allow test year recovery of $2,066 for director travel incurred while campaigning for election to Cooperative Finance Corporation (CFC) Board of Directors; (DEA, ALJ. This alternative does not adjust the DEA/DOC settlement agreement.) **or**

B. Disallow recovery of $2,066 for director travel incurred while campaigning for election to Cooperative Finance Corporation (CFC) Board of Directors; (OAG) **or**

C. Reduce test year recovery level for director travel incurred while campaigning for election to Cooperative Finance Corporation (CFC) Board of Directors to $687, or one-third of requested cost level, to normalize cost recovery level to the duration of CFC board member term (three-years). (Staff)

Airfare Cost

D. Permit full recovery of the $1,344 airfare cost for DEA Board member's trip to attend a conference in Washington, DC; (DEA, ALJ. This alternative does not adjust the DEA/DOC settlement agreement.) **or**

E. Limit recovery to one-half of airfare cost (or $672) for DEA Board member's trip to attend a conference in Washington, DC. (OAG)

Groceries

F. Allow test year recovery of $3,909 expended on groceries served to DEA employees and board members at various functions; (DEA, ALJ. This alternative does not adjust the DEA/DOC settlement agreement.) **or**

G. Disallow test year recovery of $3,909 expended on groceries served to DEA employees and board members at various functions. (OAG)

Holiday Lunch

H. Allow test year recovery of $522 expended on holiday lunch for DEA's Board members and key employees; (DEA, ALJ. This alternative does not adjust DEA/DOC settlement agreement.) **or**

I. Disallow test year recovery of $522 expended on holiday lunch for DEA's Board members and key employees. (OAG)

Modification to ALJ Report

J. Modify ALJ Findings 61 and 62 by striking both findings in their entirety and replacing Finding 61 with the following:

> 61. <u>DEA has not demonstrated a direct benefit for the Travel and Entertainment expenses identified and challenged by the OAG. Rather, DEA has sought recovery of these expenses by pointing to tangential and speculative benefits. This is not sufficient to warrant recovery, particularly for costs that have been identified in statute for careful scrutiny. Accordingly, it is not reasonable for DEA to receive recovery of $2,066 in expenses for its board member to run for the board of the CFC board, of $672 in excess airfare costs for a late scheduled trip, of $3,909 for groceries to serve at company functions, or $522 for food served at a board meeting. (OAG)</u> **or**

K. Amend the ALJ Report (Findings 61 and/or 62) to reflect the Commission's decision to disallow (or reduce) certain disputed travel, entertainment and employee expense recovery.

Retirement Dinner Expense – Resolved Issue

L. Approve the removal of the retirement dinner expense of $3,141 from Dakota Electric's test year, as agreed to between the Cooperative and the OAG. (OAG, DEA, ALJ. This alternative impacts the DEA/DOC settlement agreement.)

5. Other Non-Operating Income

(Please see staff briefing papers, p. 28)

A. Adopt the resolution between DEA and the Department, that DEA's non-regulated subsidiary income should be excluded from Other Non-Operating Income when determining the revenue requirement; (DOC, DEA, ALJ resolved. This alternative does not adjust DEA/DOC settlement agreement.) **and**

Clarify that the amount of Other Non-Operating Income included when determining revenue requirement should be $126,258 ($399,147 - $272,889). (DOC letter March 11, 2015)

6. Purchased Power Revenue and Expense

(Please see staff briefing papers, p. 30)

A. Require Dakota Electric Association in its next rate case, to include in the initial filing, workpapers for both the purchased power revenue and purchased power expense amounts included in the pro forma test year financial schedule. (Staff. This alternative does not adjust DEA/DOC settlement agreement.)

6.1 Depreciation and Reserve Depreciation (Resolved)

A. Approve the agreed upon adjustment to increase depreciation reserve by $78,749, which effectively reduces Dakota Electric's rate base by the same amount. This adjustment is necessary to properly reflect the impact of the increase to test year depreciation expense. (DEA, DOC, OAG, ALJ. This alternative does not adjust the DEA/DOC settlement agreement.)

6.2 Percentage of Payroll Expensed (Resolved)

A. Approve the agreed upon $228,590 reduction to rate base to uniformly reflect Dakota's proposed test year normalized payroll expense/capitalization factors. (DEA, DOC, ALJ. This alternative does not adjust the DEA/DOC settlement agreement.)

6.3 Cash Working Capital (Resolved)

A. Approve the agreed upon removal of interest expense from the cash working capital lead/lag study. This results in a $125,290 reduction to cash working capital, which reduces rate base by same amount. (DEA, DOC, ALJ. This alternative does not adjust the DEA/DOC settlement agreement.)

7. Cost of Capital

(Please see staff briefing papers, p. 42)

A. Adopt the ALJ's conclusion that the record supports the following resolution of the issues involving DEA's proposed capital structure, rate of return, and return on equity, and approve the following:

1. Capital Structure (58.19% equity; 41.81% debt)

Type of Capital	Amount	Percent
Equity	$136,837,360	58.19 percent
Long Term Debt	$98,336,368	41.81 percent
Total/ Weighted Cost	$235,173,728	100.00 Percent

2. Weighted Cost of Capital (4.71%)

Type of Capital	Composition	Cost	Weighted Cost
Equity	58.19 percent	4.28 percent	2.49 percent
Long Term Debt	41.81 percent	5.31 percent	2.22 percent
Total/ Weighted Cost	100.00 percent		4.71 percent

3. Overall Rate of Return on Rate Base (6.47 %)

(<u>on the condition that the rate base is $171,181,006 and calculated as follows</u>)

0.0471 * (Total Capitalization / Rate Base), i.e.,

0.0471 * ($235,173,728/$171,181,006) = 6.47 percent. <u>**or**</u>

(This alternative does not adjust DEA/DOC settlement agreement.)

B. Take some other action.

8. Sales Forecast

(Please see staff briefing papers, p. 46)

A. Approve DEA's proposed test-year energy sales volumes and budgeted customer counts. (This alternative does not adjust the DEA/DOC settlement agreement.) <u>**or**</u>

B. Take some other action.

9. Class Cost of Service Study (CCOSS)

(Please see staff briefing papers, p. 69-70)

Class Cost of Service Study in this rate case

A. Approve DEA's proposed CCOSS, and its use of the minimum-sized system study. (DEA, Department & ALJ. This alternative is part of the DEA/DOC settlement agreement.) **or**

B. Approve the use of OAG's zero-intercept proxy method in DEA's CCOSS, instead of DEA's minimum-size system study, **and**

Amend the ALJ Report (i.e. finding 111) as recommended by the OAG.

> 111. ~~The Administrative Law Judge finds that~~ DEA's minimum-size method for classifying distribution plant accounts is not reasonable and not accurate.~~, and reflects real-world minimum-size equipment needed to serve customer load on DEA's system. The Administrative Law Judge recommends that the Commission accept DEA's proposed CCOSS, including the minimum-size method~~. The OAG has demonstrated that its zero-intercept proxy is the most accurate methodology in the record, is consistent with the principles of cost-causation outlined in the NARUC manual, and is mathematically sound. Therefore, DEA shall use the zero-intercept proxy recommended by the OAG in its CCOSS. (OAG) **or**

C. Approve the use of OAG's zero-intercept proxy method in DEA's CCOSS, instead of DEA's minimum-size system study; however, require the use of a different inflation adjustment. Amend the ALJ's report as necessary. (Staff)

Class Cost of Service Study in DEA's next rate case:

D. Adopt the recommendations in ALJ findings 112 and 113:

> 112. In addition, the Administrative Law Judge recommends that the Commission require DEA to conduct its minimum system study in its next rate case by using the minimum-size method, supported by the zero-intercept method.

> 113. The Administrative Law Judge finds that there is insufficient evidence in the record to determine that a demand adjustment should be required in DEA's next rate proceeding, particularly if DEA performs its minimum system study using both the zero-intercept and the minimum-size methods of analysis. Therefore, the Administrative Law Judge does not recommend that the Commission require DEA to incorporate a demand adjustment into its next minimum-size method analysis. (DEA,

Department, and ALJ. This alternative is part of the DEA/DOC settlement agreement.) **or**

E. Do not adopt the ALJ's recommendation and strike findings 112 and 113. (OAG) **or**

F. Do not adopt the ALJ's recommendation, strike ALJ findings 112 and 113, and require DEA to use a demand adjustment to its minimum-size study in its next rate case. (Staff) **or**

G. Do not adopt the ALJ's recommendation, strike ALJ findings 112 and 113, and require DEA to use the OAG's zero-intercept proxy method as a means for estimating the demand adjustment to its minimum-size method in its next rate case. (Staff)

10. Apportionment of Class Revenue Responsibility

(Please see staff briefing papers, p. 81)

A. Approve the apportionment of class revenue responsibility as set forth in the Settlement Agreement. (DEA, Department & ALJ. This alternative is part of the DEA/DOC settlement agreement.) **or**

B. Approve the apportionment of class revenue responsibility recommended by the OAG; **and**

Amend the ALJ Report (i.e. findings 129 through 132) by replacing finding 129 with the following and striking findings 130, 131, and 132.

> 129. The OAG's proposed revenue apportionment is reasonable. The OAG's proposed revenue apportionment is informed by the OAG's CCOSS, which provides the most accurate assessment of customer costs. In addition, the OAG's revenue apportionment requires each customer class to make meaningful contributions to Dakota's cost of providing utility service, while not over-burdening any single customer class. (OAG) **or**

C. Do not approve the revenue apportionment as set forth in the Settlement Agreement or any revenue apportionment based upon DEA's CCOSS; instead, increase all customer classes by the same percent as the percentage of the overall rate increase. (Staff)

11. Monthly Fixed Customer Charges

(Please see staff briefing papers, pp. 98-99)

A. Approve the increases in the fixed monthly customer charges as set forth in the Settlement Agreement between DEA and the Department; **and**

Amend the ALJ Report (Finding 170) to authorize a $14.00 per month customer charge for the Small General Service customer class as recommended by DEA. (DEA. This alternative reflects the DEA/DOC settlement agreement.)

B. Approve the increases in the fixed monthly customer charges as set forth in the Settlement between the DEA and the Department, with the exception of the Small General Service class. Increase the fixed monthly customer charges for the Small General Service class from $10.00 to $12.00. (Department, ALJ)

C. Do not approve an increase in the fixed monthly customer charges for either the Residential & Farm or the Small General Service Classes. (OAG); **and**

Amend the ALJ Report by not adopting Findings 166 through 170 and replacing them with the following:

166. The record in this matter demonstrates that the customer charge of $8.00 pays for a substantial portion of the customer costs generated by the CCOSS, when primary lines are excluded. The record further demonstrates that it is not appropriate to include the costs of primary lines in the costs used to inform the customer charge.

167. The OAG has provided extensive and persuasive, quantitative evidence demonstrating that increasing the customer charge will have detrimental effects on the majority of low-income customers. In addition, the OAG has demonstrated that the effect of maintaining the current customer charge will have minimal effects on a small number of high-use, low income customers.

168. The record in this matter also demonstrates that increasing the customer charge will have a negative effect on customers incentive to conserve. This conflicts with the statutory directive to "set rates to encourage energy conservation." Minn. Stat. § 216B.03 (2014).

169. For these reasons, it is appropriate and reasonable to maintain the existing $8 customer charge for the Residential class and the $10 customer charge for the Small General Service class. (OAG) **or**

D. Do not approve any increase in the fixed monthly customer charges for any customer class. (OAG)

12. General Housekeeping & Compliance Issues

(Please see staff briefing papers, pp. 99-100)

A. State that the final order in this docket shall contain summary financial schedules including: a calculation of DEA's 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.

The written order memorializing these decisions may rearrange, reorganize, or renumber the items included as necessary for clarity and may standardize or correct abbreviations, punctuations, and format.

B. Require DEA to make the following compliance filings within 30 days of the date of the final order in this docket:

1. 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:

   a. Breakdown of Total Operating Revenues by type;
   b. Schedules showing all billing determinants for the retail sales (and sale for resale) of electricity. 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 energy and demand related billing units, the per unit energy and demand cost of energy, and the total energy and demand related sales revenues.
   c. Revised tariff sheets incorporating authorized rate design decisions;
   d. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.

2. A revised base cost of energy, supporting schedules, and resource and tax adjustment tariffs to be in effect on the date final rates are implemented.

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

4. Direct DEA to file a computation of the base DSM & Conservation Recovery rate, based upon the decisions made herein for inclusion in the final Order. Direct DEA to file a schedule detailing the DSM & Conservation Recovery tracker balance at the beginning of interim rates, the revenues (both base and the Resource and Tax Adjustment rate recovery) and costs recorded during the period of interim rates, and the DSM & Conservation Recovery tracker balance at the time final rates become effective.

5. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates consistent with the Commission's decision in this proceeding, to affected customers.

C. Authorize comments on all compliance filings within 20 days of the date they are filed. However, comments are not necessary on DEA's proposed customer notice.