June 29, 2017

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G004/M-17-338

Dear Mr. Wolf:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

> Great Plains Natural Gas Company's 2016 Conservation Improvement Program Status Report and CIP Tracker and Demand Side Management Incentive (*Petition*).

The *Petition* was filed on May 1, 2017 by:

> Tamie A. Aberle
> Director of Regulatory Affairs
> Great Plains Natural Gas Co.
> 400 North Fourth Street
> Bismarck, ND 58501

As discussed in greater detail in the attached *Comments*, the Department recommends **approval** of Great Plains Natural Gas Company's filing. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have in this matter.

Sincerely,

/s/ DANIELLE WINNER
Rates Analyst

DW/lt
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G004/M-17-338

I. SUMMARY OF THE UTILITY'S FILING

On May 1, 2017, Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company), submitted its 2016 Conservation Improvement Program Status Report and CIP Tracker and Demand Side Management Incentive (*Petition*) to the Minnesota Public Utilities Commission (Commission, MPUC, or PUC). The Company's *Petition* included:

- a proposed 2016 Demand Side Management (DSM) financial incentive of $345,928;
- a report of proposed recovery and expenditures in its Conservation Improvement Program (CIP) tracker account during 2016; and
- a proposed change to the Conservation Cost Recovery Adjustment (CCRA).

In addition, Sections I and II of the Petition contained the Company's *2016 Conservation Improvement Program Status Report* (*Status Report*) for the period January 1, 2016 through December 2016. The *Status Report* is intended to fulfill the requirements of the Minnesota Department of Commerce, Division of Energy Resources' annual CIP reporting rules contained in Minnesota Rules part 7690.0500. Since the Company's *Status Report* does not require Commission approval, this portion of the *Petition* has been assigned a separate docket number.[1]

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) provides its analysis and recommendations below.

[1] See Docket No. G004/CIP-12-573.04.

II. COMMISSION'S 2015 ORDER AND COMPANY'S 2015 RATE CASE

On November 23, 2016, the Commission issued its Order in Docket No. G004/M-16-384 approving Great Plains' DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved Great Plains' 2015 financial incentive for CIP achievements
2. Approved Great Plains' 2015 CIP tracker account as set forth in the Department's August 8, 2016 comments
3. Required Great Plains, in future CIP filings, to update the interest rate used to calculate carrying charges to match the short-term cost of debt approved by the Commission in the Company's most recent rate case
4. Approved a CCRA of $0.2125/Dth, to be effective with implementation of final rates in Docket No. G004/GR-15-879
5. Required Great Plains to use a CCRA-calculation methodology that adequately accounts for carrying charges associated with the financial incentive
6. Required Great Plains, in future CIP filings, to calculate the CCRA based on the existing tracker balance, as well as the projected sales, expenditures, financial incentive(s), and any pertinent adjustments that may occur over the period the CCRA will be in place
7. Clarified that the CCRA should be adjusted only after a thorough review of Great Plains' CIP tracker
8. Approved Great Plains' proposed bill message for publication in conjunction with the implementation of final rates in Docket No. G004/GR-15-879, modified to reflect the appropriate base year, effective date, and CCRA
9. Delegated authority to the Executive Secretary to approve customer notices for the duration of the proceeding

The Department notes that although not required as part of the final Order, Great Plains did not file an updated tariff page to reflect the approved rate. However, the Department verified that the Company updated its tariff page on its website, and that the approved rates went into effect on January 1, 2017.

III. THE DEPARTMENT'S ANALYSIS

The Department's analysis of Great Plains' *Petition* is provided in the following sections:

- in Section III.A, Great Plains' proposed 2016 DSM financial incentive;
- in Section III.B, Great Plains' proposed 2016 CIP tracker account;

- in Section III.C, Great Plains' proposed gas Conservation Cost Recovery Adjustment; and
- in Section III.D, a review of Great Plains' CIP activities for the period 2009 through 2016.

A. GREAT PLAINS' PROPOSED 2016 DSM FINANCIAL INCENTIVE

1. Background and Summary of Great Plains' Proposed 2016 DSM Financial Incentive

The Shared Savings DSM financial incentive plan was approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010. On December 20, 2012 the Commission issued its *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives* (Modification Order). The Shared Savings approach emphasizes a 1.5 percent energy savings goal, and ties the incentive earned by the utility to pursuit of the 1.5 percent savings goal. The incentive mechanism sets a specific dollar amount per unit of energy saved that each utility will earn at energy savings equal to 1.5 percent of annual non-CIP-exempt retail sales. That dollar amount is referred to as the incentive calibration. The higher the calibration, the higher the incentive will be at all energy savings levels; however, the incentive calibration does not take effect until a specified savings threshold is reached. Each electric utility's incentive is calibrated so that when the utility achieves energy savings equal to 1.5 percent of retail sales, electric utilities will earn an incentive equal to $0.07 per kWh saved and gas utilities will earn $9 per thousand cubic feet (Mcf) saved. The Commission's Modification Order stated, in part:

> *The Commission hereby adopts the Department's proposal for the continuation of the new shared savings financial incentive with the following:*
>
> A. A threshold set at half of the utility's average achievements from 2007 to 2011 for utilities with triennial CIPs beginning in 2013, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest. For utilities with triennial Conservation Improvement Programs beginning in 2014, the threshold shall be set at half of the utility's average achievements from 2008 to 2012, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest.
> B. The calibration at 1.5 percent of retail sales for each utility set as follows: (1) $9.00 per Mcf for natural gas utilities, and (2) $0.07 per kWh for electric utilities.

C. A utility may not modify its incentive to correct for non-linear benefits.
D. The incentive shall be capped at 20 percent of net benefits for all utilities except for Minnesota Power. The Commission will defer a decision on the application of the 20 percent cap of net benefits for Minnesota Power until 2013 to allow for the consideration of updated avoided cost information for this utility.
E. The existing cap of 125 percent of a utility's 1.5 percent calibration level for the electric utilities ($0.0875 per kWh) and a cap of 125 percent of the 1.0 percent target calibration for gas utilities ($6.875) per Mcf are continued.
F. The percentage of net benefits to be awarded to each utility at different energy savings levels will be set at the beginning of each year.
G. The CIP-Exempt Class shall not be allocated costs for the new shared savings incentive. Sales to the CIP-Exempt Class shall not be included in the calculation of utility energy savings goals.
H. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.
I. If a utility elects to include a third-party project, the project's net benefits and savings will be included in calculation of the percentage of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post CIP year calculations of net benefits and energy savings achieved and incentive awarded. In any case, the energy savings will count toward the 1.5 percent savings goal.
J. The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive, but will not change the percent of net benefits awarded at different energy savings levels.
K. The costs of any mandated, non-third-party projects (*e.g.*, Next Generation Energy Act assessment, University of Minnesota Institute for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post-CIP year calculations of net benefits and energy savings achieved and incentive awarded.

L. Costs, energy savings, and energy production from Electric Utility Infrastructure Projects (EUIC), solar installation and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.
M. The Department shall file a recommendation with the Commission on the application of a net benefits cap for Minnesota Power's incentive by October 1, 2013. The recommendation should be filed in Docket No. E,G-999/CI-08-133.
N. No adjustment will be made at this time to the calibration of the incentive mechanism for utilities that have Commission approved decoupling mechanisms.
O. The new shared savings DSM incentive shall be in operation for the length of each utility's triennial CIP plan.

Further, the Commission approved a net benefits cap of 30 percent for Minnesota Power on November 19, 2013.

With respect to net benefits, Great Plains provided in its *Petition* the benefit-cost results of the revenue requirements test associated with the Company's 2016 CIP. According to the Company, Great Plains' 2016 CIP activities resulted in an estimated $2,774,777 of net benefits before the requested incentive.[2] Great Plains also stated that its CIP activities achieved energy savings in 2016 of 56,669 dekatherms (Dth).[3] Based on the terms and conditions of its approved DSM incentive plan, Great Plains requested approval of a 2016 financial incentive of $345,928.

2. *The Department's Review of Great Plains' Proposed 2016 DSM Financial Incentive*

Great Plains calculated that its 2016 performance results in a Shared Savings DSM financial incentive of $345,928. This number is the product of $2,774,777, the estimated net benefits, multiplied by 12.46688 percent, the percent of net benefits awarded.[4]

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[2] *Petition*, Attachment F.
[3] The Department notes that the Company uses dekatherms, denoted dk in Company filing, rather than thousand cubic feet (Mcf).
[4] The Company first calculated 0.1% of its average annual sales to be 5,570 Dth; therefore, each "step" between 0 and 1.5% of sales is equal to 5,570. The Company's claimed energy savings was 56,669 Dth, which corresponds to 10.17 "steps" from the zero point. The Company adjusted the number of steps by a multiplier of 1.22537 percent, resulting in 12.46688 percent of net benefits to be awarded. The multiplier is the percent of net benefits received for every 0.1% of sales saved. The financial incentive is the product of the estimated net benefits of $2,774,777 and the percentage of net benefits to be awarded.

The Department's engineering-oriented analysis of the energy savings and net benefits that underpin Great Plains' proposed 2016 DSM financial incentive is ongoing. This analysis will not be completed before the instant *Comments* are due. The existence of this lag between the Company's request for recovery of the incentive and the completion of the Department's engineering review is a recurring phenomenon.

Last year, as in previous years, the Department compensated for this lag by simply assuming Great Plains' claimed energy savings for 2015 were correct as filed and planned to make any adjustments approved by the Deputy Commissioner of the Department in the instant filing. On July 29, 2016, the Deputy Commissioner approved Great Plains' 2015 Status Report without any adjustments in Docket No. G004/CIP-12-573.03, and thus none need to be made in the instant docket.

In the event that the Deputy Commissioner of the Department approves a different energy savings or net benefits for the current 2016 Status Report in Docket No. G004/CIP-12-573.04, the Commission can approve any adjustments to the Company's 2016 DSM financial incentive when it considers the Company's 2017 filing, which will be made May 1, 2018.

B. GREAT PLAINS' 2016 CIP TRACKER ACCOUNT

In its *Petition*, Great Plains requested approval of its report on recoveries and expenditures in the Company's CIP tracker account during 2016. Table 1 provides a summary of these activities.

Table 1: Summary of Great Plains' CIP Tracker Account in 2016[5]

Description	Time Period	Amount
Beginning Balance	January 1, 2016	$241,051
CIP Expenditures[6]	January 1 through December 31, 2016	$642,143
Recovery via Base Rates (CCRC)	January 1 through December 31, 2016	($331,068)
Recovery via CCRA	January 1 through December 31, 2016	$29,288
Carrying Charges[7]	January 1 through December 31, 2016	$2,346
2015 DSM Financial Incentive	December 2016	$477,077
Ending Balance (Over)/Under	December 31, 2016	$1,060,837

The Company's CIP Tracker reflects the Commission's 2015 DSM financial incentive of $477,077. As such, Great Plains reported CIP Expenditures of $1,119,220, with the figure including this DSM financial incentive.

The 2016 CIP Tracker also shows "negative" CCRA recovery, which is the result of the Company establishing a negative CCRA during the Company's rate case proceeding.[8] The Company maintained a negative CCRA through December 31, 2016, and the current CCRA took effect beginning January 1, 2017.

The Company used an annual carrying charge rate of 0.75%, divided by 12, for a monthly carrying charge rate of 0.0625%. The Department notes that this rate was based on the two-year U.S. Treasury bond rate as of April 18, 2016, and was used during last year's CIP Tracker filing. At the time of last year's filing, Great Plains did not have a rate-case-established short-term cost of debt, and so the Commission instead directed the Company to use the two-year Treasury bond rate. In last year's filing, the Commission also directed the Company to, in future

[5] *Petition*, Attachment E, pages 2-3.
[6] The Company's CIP Tracker lumps the financial incentive in with the CIP Expenditures. CIP Expenditures also include Next Generation Energy Act of 2007 (NGEA) assessments of $21,691 and Employee Expenses, which include categories such as travel and meals, of $0 (*Petition*, pages 11-12).
[7] The Company's 2016 CIP Tracker Account was under-recovered for the majority of the year, and so total annual carrying charges accrued in the favor of the Company.
[8] In the Company's rate case in Docket No. G004/GR-15-879, the Company increased its Conservation Cost Recovery Charge (CCRC) beginning January 1, 2016 and incorrectly decreased the CCRA by the same amount beginning the same date. This resulted in a negative CCRA, which moved the Company further from its CIP tracker goal. The Department raised concerns about this treatment of the CCRA in the Company's CIP filing last year (Docket No. G004/M-16-384), and the Commission clarified in Order Point 7 of its November 23, 2016 Order that the CCRA should only be adjusted after a thorough review of the Company's CIP tracker.

CIP filings, "update the interest rate used to calculate carrying charges to match the short-term cost of debt approved by the Commission in the Company's most recent rate case." However, as the short-term cost of debt was established in the Company's most recent rate case (Docket No. G004/GR-15-789) through the Commission's final order on December 22, 2016, the Company appropriately applied the two-year U.S. Treasury bond rate through the 2016 CIP tracker, and began using the new short-term cost of debt beginning January 1, 2017.

The Department concludes that the Company's 2016 CIP tracker accurately reflects activity during that period, and recommends the Commission approve the 2016 CIP tracker.

C. GREAT PLAINS' CONSERVATION COST RECOVERY ADJUSTMENT

1. Great Plains' Proposed CCRA

Minnesota Law states in relevant part that the Commission "may permit a public utility to file rate schedules for annual recovery of the cost of energy conservation improvements."[9] This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment (CCRA).

In its *Petition*, Great Plains requested approval of a revised CCRA of $0.2027 per Dth, a decrease of $0.0028 from the current CCRA of $0.2125.[10] The proposed CCRA was derived by assuming recovery of a total of $1,389,784 through the CCRA over a 12-month period, with 6,627,900 Dth in sales. The Company stated that as a result of the CCRA increase, the average residential customer using 76 Dth per year would pay a total annual CIP cost of $20.16, a $0.22 decrease from the current total annual CIP cost of $20.38.[11] The Company proposed this CCRA to become effective September 1, 2017.

2. The Department's Review of Great Plains' Proposed CCRA

In last year's filing, Great Plains' proposed CCRA used a 24-month amortization period for the August 2016 tracker balance and the financial incentive for 2015. The currently-proposed CCRA reflects the second 12 months of the 24-month amortization period. In other words, the high existing tracker balance was expected, as the Company's existing CCRA was not intended to result in a zero tracker at this date. However, the currently proposed CCRA should bring the tracker balance to zero by this time next year.

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[9] See Minn. Stat. §216B.16, subd. 6b(c).
[10] See *Petition*, Attachment E, Page 1.
[11] Total estimated annual CIP costs include both CCRC and CCRA charges. *Petition,* Attachment E, Page 1.

Over the past two years' filings, the Department took issue with Great Plains' methodology used in calculating the CCRA. In its previous methodology, the Company's proposed CCRA reflected only past under-recoveries rather than a projection of future costs; this meant that the Company did not account for projected CIP expenses not recovered by the CCRC in base rates. The Department recommended that the Company use a forward-looking true-up, rather than a backwards-looking one, which results in the CCRA recovering costs closer to the time expenses are incurred. This practice helps utilities maintain a tracker balance closer to zero, mitigate carrying charges, and plan for CIP expense fluctuations.

The Commission agreed with the Department's recommendations, and so directed the Company "to calculate the CCRA based on the existing tracker balance, as well as the projected sales, expenditures, financial incentive(s), and any pertinent adjustments that may occur over the period the CCRA will be in place."

The Department notes that in this year's filing the Company has successfully incorporated the Commission's requirement. The Company did this by first projecting the tracker balance expected in August of 2017 under the current CCRA, as shown in Table 2 below.

Table 2. Great Plains Natural Gas's Projected Activity through August 31, 2017

Description	Amount
January 1, 2017 Beginning Balance	$1,060,837
CIP Expenditures, Jan – Aug 2017 (Apr-Aug Estimated)	$438,999
Carrying Charges, Jan – Aug 2017 (Apr- Aug Estimated)	$7,306
CCRC Recoveries (Base Rates), Jan – Aug 2017 (Apr-Aug Estimated)	($241,962)
CCRA Recoveries, Jan – Aug 2017 (Apr-Aug Estimated)	($749,827)
Ending Balance, August 31, 2017	$515,353

After projecting the tracker balance for August 2017, the Company then determined the total amount to be recovered from September 2017—August 2018, based on projected CIP expenditures, carrying charges, financial incentives, and base rate recoveries, per the Commission's Order. The Company assumed sales of 6,627,900 Dth over that period, which resulted in a CCRA of $0.2097, as shown in Table 3 below.

Table 3. Great Plains Natural Gas's Calculation of Proposed CCRA, to be effective September 2017

Description	Amount
September 1, 2017 Beginning Balance	$515,353
CIP Expenditures, Sept 2017 – Aug 2018	$891,332
Carrying Charges, Sept 2017- Aug 2018	$5,682
Estimated CCRC Recoveries (Base Rates), Sept 2017- Aug 2018	($368,511)
2016 DSM Financial Incentive	$345,928
Total Proposed to be Recovered Through CCRA, Sept 2017- Aug 2018	$1,389,784
Projected Annual Sales, Sept 2017- Aug 2018 (Dth)	6,627,900
Proposed CCRA ($/Dth)	$0.2097

In its November 23, 2016 Order, the Commission also directed the Company to "use a CCRA-calculation methodology that adequately accounts for carrying charges associated with the financial incentive." The Department has verified that the projected carrying charge amount of $5,682 correctly reflects the booking of the financial incentive within the projected CIP tracker.

3. Review of Customer Notification

Great Plains proposed to update the relevant tariff sheet with the approved CCRA on the Company's website upon approval by the Commission. Although this proposal would provide some degree of notification, the Department recommends, as it did last year, that a message be included on the customers' bills to provide better notification of the change in the approved CCRA, and to include its intent to do so in future CCRA filings. Specifically, the Department recommends that the Commission require Great Plains to include the following bill message in the billing month immediately following the date of the Order in the instant docket:

> Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of [insert rate] per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

D. REVIEW OF GREAT PLAINS' DSM AND CIP ACTIVITIES (2010-2016)

In Attachment A, Table 1, the Department presents a historical comparison of Great Plains' DSM and CIP activities during the period 2010 through 2016. This table provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and energy savings have changed during that period.

An analysis of Attachment A, Table 1 indicates that, in 2016 the Company's energy savings were 56,669 Dth, compared to a high of 69,393 Dth in 2015 and a low of 14,969 Dth in 2013. The Company's 2016 expenditures were $642,143, compared to a high of $724,644 in 2015 and a low of $327,380 in 2014.

The Company's 2016 incentive was $345,928, compared to a high of $477,077 in 2015 and a low of $18,915 in 2010, for a total growth of 1,729 percent. The Commission recently approved a new financial incentive mechanism in Docket No. E,G999/CI-08-133, to be effective for energy saved in 2017 and going forward, and thus will materialize in next year's filing.

Great Plains' 2016 year-end tracker balance was $1,060,837; this is the highest tracker balance the utility has yet recorded. It compares with a low of (49,755) in 2014 and is 167 percent higher than the next highest tracker balance, which was $397,382 in 2013. As detailed in the comments above, the Company has taken steps to mitigate the tracker balance growth by implementing the forward-looking CCRA, as directed by the Commission.

IV. RECOMMENDATIONS

Based on the analysis above, the Department recommends that the Commission:

1. Approve Great Plains Natural Gas's 2016 CIP tracker account, as summarized in Table 1 above, resulting in a 2016 tracker balance of $1,060,837;
2. Approve an incentive of $345,928 for Great Plains Natural Gas's 2016 CIP achievements;
3. Approve a CCRA of $0.2097 per Dth, to be effective September 1, 2017;
4. Require Great Plains Natural Gas to include the following bill message (with the appropriate rate) in the billing month immediately following the date of the Order in the present docket:

> Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of [insert rate] per dk

as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

5. Require Great Plains Natural Gas to submit a compliance filing, within 10 days of the issue date of the Order in the present docket, with revised tariff sheets reflecting the Commission's determinations in this matter.

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Table 1: A History of Great Plains Natural Gas's DSM and CIP Activities (2010-2016)[1]

	2010	2011	2012	2013	2014	2015	2016
DSM financial incentive	18,915	37,707	114,763	24,137	42,180	477,077	345,928
Incentive as % of CIP expenditures	4.4%	10.2%	28.6%	6.4%	12.9%	65.8%	53.9%
Carrying charges	(7,527)	10,979	24,008	27,097	9,732	(1,094)	2,346
Carrying charges as % of CIP expenditures	-1.8%	3.0%	6.0%	7.2%	3.0%	-0.2%	0.4%
Year-end tracker balance	52,659	324,363	369,299	397,382	(49,755)	241,051	1,060,837
Year-end tracker bal. as % of CIP expenditures	12.3%	87.5%	91.9%	104.9%	-15.2%	33.3%	165.2%
CIP expenditures (excluding incentives)	427,847	370,570	401,694	378,793	327,380	724,644	642,143
Achieved first-year energy savings (Dth)	17,426	24,604	41,509	14,969	19,788	69,393	56,669
Average cost per Dth saved (excludes incentives)	24.55	15.06	9.68	25.31	16.54	10.44	11.33

Source: Great Plains' annual CIP Filings

10-418	11-404	12-439	13-334	14-358	15-422	16-384	17-338

[1] These figures are as initially proposed by Great Plains Natural Gas and are not adjusted for later decisions.