MINNESOTA PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Volume V, Rate Design & Revenue Decoupling

Meeting Date	August 4, 2020 (Oral Argument) August 6, 2020 (Deliberations)	Agenda Item **1
Company	Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co.	
Docket No.	**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**	
Issues	1. Is the rate design proposed by the Company reasonable? 2. Is Great Plains' request to continue its Revenue Decoupling Mechanism (RDM) on a permanent basis reasonable: (a) Should the pilot be extended beyond 2020 and, if so, for how long? (b) Should the proposed margin sharing mechanism be incorporated into the RDM? (c) Should a minimum energy savings level be required in order to implement a surcharge?	

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Relevant Documents **Date**

Relevant documents are listed on the cover page of Vol. I of the briefing papers. References to the case record are provided in the footnotes in the briefing papers.

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I. Rate Design

PUC Staff: Kevin O' Grady and Sally Anne McShane

A. Introduction

Much of the discussion of the parties in a rate case focuses on determination of the revenue requirement. Once the revenue requirement has been established by the Commission, the Commission proceeds to assign (apportion) revenue responsibilities to the customer classes. Once apportioned, the Commission determines the design of rates within each class. In setting rates, the Commission should be aware that rates must be just and reasonable[1] and that an important aspect of reasonable rates is their design. Apportionment and rate design are largely quasi-legislative functions, involving policy decisions.

This Rate Design section begins with a discussion of Apportionment, then addresses the Rate Designs specific to a number of different rate classes under the general heading of Basic Customer Service Charges. A subsequent sub-section will address Great Plains' Margin Sharing Credit. The final sub-section will focus on a report by the parties on Great Plain's Customer Service Extension Tariff that the Commission required of the parties.

B. Class Revenue Apportionment

1. Introduction

Table V-1 below summarizes Great Plains' proposed revenue apportionment from its initial filing based on the initial amount of Great Plains' request for a rate increase.

Table V-1. Great Plains' Current and Proposed Revenue Apportionment

Customer Class[1]	Number of Customers	Sales (dth)	Current Revenue ($)	Proposed Revenue ($)	Proposed Change ($)	Proposed Change (%)
Residential	18,808	1,527,457	10,145,514	12,120,411	1,974,897	19.47
Firm General (<500)	2,014	286,401	2,044,777	2,374,954	330,177	16.15
Firm General (>500)	1,064	1,055,652	5,851,905	6,751,461	899,596	15.37
Interruptible Grain Drying	23.9	191,639	812,834	939,405	126,571	15.57
Small Interruptible	92.5	392,421	1,790,007	1,894,918	104,911	5.86

[1] Minn. Stat. §§ 216B.03, 216B.07.

Table V-1. Great Plains' Current and Proposed Revenue Apportionment						
Customer Class[1]	Number of Customers	Sales (dth)	Current Revenue ($)	Proposed Revenue ($)	Proposed Change ($)	Proposed Change (%)
Small Interruptible Transport	6	85,118	114,039	139,191	25,152	22.06
Large Interruptible Transport	10	2,328,400	1,306,085	1,439,333	133,248	10.20
Large Interruptible	7	359,600	1,307,839	1,353,246	45,407	3.47
Large Interruptible Flex Transport	3	2,261,482	495,755	495,755	0	0.00
Total	**22,028**	**8,488,170**	**23,868,755**	**27,508,674**	**3,639,919**	**15.25**
Source: Great Plains Statement E, Schedule E-1, p. 3 of 18.						
[1] Great Plains included the Margin Sharing Customer (MSC) as a separate customer class. As the MSC is not an approved or proposed customer class, Staff included the MSC data in the Large Interruptible Transport class.						

2. Reference to the Record

GP: Hatzenbuhler Direct, 9/27/19, pp. 17-18 and Schedule E-1, pp. 1-4
Hatzenbuhler Rebuttal, 2/11/20, p. 2
Exceptions to the ALJ Report, 7/13/20, pp. 9-10
Compliance Filing, 7/8/20

DOC: Direct, 1/16/20, pp. 40-47

GP, DOC, OAG: Joint Proposed Findings, 4/15/20, pp. 35-36

ALJ: ALJ Report, 6/30/20, pp. 86-88

3. Positions of the Parties and the ALJ

Great Plains states …

> The embedded cost of service study and proposed revenue allocation embody several of the recognized objectives by their effectiveness in yielding the total revenue requirement under the fair-return standard, fairness of the specific rates in the apportionment of the total costs of service among the different consumers, and efficiency of the rate classes. The rate forms proposed also recognize a balanced and gradual move toward meeting the objectives noted above in order to be cognizant of the objective of rate stability. In order to capture that balance, the proposed

> rates reflect a move toward cost-based rates but not the full step necessary to price each service to reflect the specific embedded cost components.[2]

DOC supports Great Plains' proposal …

> I conclude that the Company's proposed apportionment of revenue responsibility is reasonable. Great Plains' proposed residential class increase of 15.7 percent only amounts to 55 percent of the increase suggested by the cost based apportionment of revenue responsibility model. While this is a relatively significant increase for the residential class, it is reasonable since the increase reduces inter-class subsidies. … [T]he Company's proposed apportionment of revenue responsibility moves the majority of classes closer to the cost based apportionment of revenue responsibility, while leaving the remaining classes very close to the status quo. Therefore, I conclude that Great Plains' proposed apportionment of revenue responsibility is reasonable because it reduces inter-class subsidies without causing rate shock for customers.[3]

OAG took no position regarding apportionment.

The **ALJ** found …

> The Administrative Law Judge concurs that GP's proposed apportionment of revenue responsibility is reasonable. The Judge also recommendations that the revenue requirement, if revised by the Commission, be apportioned consistent with the Company's proposal.[4]

Great Plains filed Exceptions to the ALJ Report, specifically in reference to Finding 396 where it proposed changes to the table displaying class responsibility to account for a recent Commission decision regarding the base cost of gas. Great Plains states that the …

> … class responsibility percentages … [below] represent the class responsibilities resulting from the class revenues reflecting the base cost of gas update submitted in Docket No. GR-19-512 on July 8, 2020 and the allocation of the ALJ revenue requirement (as submitted on July 8, 2020 in Docket No. GR-19-511) in the same manner as Great Plains' original allocation of the revenue increase. The percentages provided in the ALJ's recommendations at Finding 396 did not accurately reflect the class percentage responsibility set forth in Exhibit DER-12 at 8 (Zajicek, Surrebuttal) as referenced in footnote 698 of the ALJ report.[5]

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[2] Hatzenbuhler Direct, pp. 17-18.

[3] Zajicek Direct, p. 47.

[4] ALJ Report, p. 88, para 398.

[5] Great Plains' Exceptions, footnote 34, p. 9.

Great Plains proposed the following modifications:

Table V-2. Modifications to the ALJ Report, Finding 396, as Proposed by Great Plains		
Class	**% Responsibility**	
Residential	~~15.71%~~	44.46%
Firm General	~~12.53%~~	33.38%
Interruptible Grain Drying	~~12.23%~~	3.24%
Small Interruptible Gas Sales	~~2.53%~~	6.57%
Small Interruptible Gas Transport	~~16.15%~~	0.51%
Large Interruptible Gas Sales	~~0.44%~~	4.59%
Large Interruptible Gas Transport	~~6.04%~~	7.25%
Source: Great Plains Exceptions, pp. 9-10.		

4. Staff Discussion

In Finding 396 the ALJ discusses apportionment, labeling the right-hand column "% Responsibility." However, the figures listed by the ALJ refer to the percentage increase in revenue responsibility by class, not apportionment (% Responsibility) and, as such, do not sum to 100 percent. It appears the ALJ sourced those figures from Table 4 of Zajicek Direct, p. 42, right-hand column labeled "Percent Increase w/Cost of Gas and W/out GUIC."

The figures proposed by Great Plains can be derived from its Compliance Filing of July 8th (Exhibit 2, p. 3 of 19). See the figures below in boldface in Table V-3. Those figures represent the class revenue apportionment that would result if the Commission approved the ALJ's recommendations without modification. Staff believes those numbers include the revised base cost of gas, the amount from the GUIC rider moved into base rates, and any adjustments recommended by the ALJ. Note that Table V-3 below indicates that the residential class would experience a 19.2 percent increase if the GUIC is included in that increase. Based on Great Plains' Compliance Filing (Exhibit 2, p. 2 of 19), once the GUIC figures are removed, Residential customers would experience a 15.4 percent increase. Great Plains explained that the GUIC "dollars do not represent an increase to retail rates as part of the rate case as customers would pay this amount if no rate case had been filed" (footnote 3 of Exhibit 2, p. 2 of 19). Table V-4 shows the average monthly revenue per customer with and without GUIC included.

Table V-3. Revenue Allocation Assuming ALJ Recommendations are Approved							
Customer Class	**Current Revenue ($)**	**Revenue Rqmnt. as a % of Total**	**Proposed Revenue ($)**	**Revenue Rqmnt. as a % of Total**	**GP, Exceptions With GUIC**	**% Increase With GUIC**	**% Increase Without GUIC**
Residential	9,896,997	42.9%	11,799,504	44.46%	**44.46%**	19.2%	15.4%
Firm General (Sm. & Lg.)	7,678,331	33.3%	8,859,038	33.38%	**33.38%**	15.4%	12.2%
Interruptible Grain Drying	745,377	3.2%	860,003	3.24%	**3.24%**	15.4%	11.7%
Small Interruptible	1,651,875	7.2%	1,743,247	6.57%	**6.57%**	5.5%	1.9%
Small Interruptible Transport	114,039	0.5%	136,255	0.51%	**0.51%**	19.5%	13.6%
Large Interruptible	1,181,260	5.1%	1,218,407	4.59%	**4.59%**	3.1%	-0.2%
Large Interruptible Transport (All)	1,801,840	7.8%	1,924,214	7.25%	**7.25%**	6.8%	5.4%
Total	23,069,719	100%	26,540,668	100.00%	**100.00%**	15.0%	11.7%
Source: Great Plains Compliance Filing, July 8, 2020, Exhibit 2, pp. 2 & 3 of 19.							

On a per customer basis, the monthly increases are approximately the following.

Table V-4. Monthly Revenue per Customer with and without GUIC included.						
Customer Class	**# of Customers**	**Current Revenue ($)**	**Current Rev. per Cust. per month ($)**	**Proposed Revenue ($)**	**Proposed Rev. per Cust. Per month With GUIC ($)**	**Proposed Rev. per Cust. Per month Without GUIC ($)**
Residential	18,808	9,896,997	43.85	11,799,504	52.28	50.59
Firm General (Sm. & Lg.)	3,078	7,678,331	208	8,859,038	240	233
Interruptible Grain Drying	23.9	745,377	2,599	860,003	2,999	2904
Small Interruptible	92.5	1,651,875	1,488	1,743,247	1,570	1517

Table V-4. Monthly Revenue per Customer with and without GUIC included.

Customer Class	# of Customers	Current Revenue ($)	Current Rev. per Cust. per month ($)	Proposed Revenue ($)	Proposed Rev. per Cust. Per month With GUIC ($)	Proposed Rev. per Cust. Per month Without GUIC ($)
Small Interruptible Transport	6	114,039	1,584	136,255	1,892	1799
Large Interruptible	7	1,181,260	14,063	1,218,407	14,505	14,033
Large Interruptible Transport (All)	13	1,801,840	11,550	1,924,214	12,335	12,178
Total	22,028	23,069,719		26,540,668		
Source: Great Plains Compliance Filing, July 8, 2020, p. 2 of 19.						

5. Decision Alternatives

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

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

503. Take other action.

C. Basic Customer Service Charges

1. Introduction

Table V-5 below summarizes Great Plains' current and proposed basic customer service charges.

Table V-5. Current and Proposed Customer Service Charges					
Customer Class	CCOS Customer Cost ($/mo)	Current Charge ($/mo)	Proposed Charge ($/mo)	Proposed Increase ($/mo)
Residential	24.39	7.50	9.00	1.50
Small Firm General Service	27.62	23.00	27.50	4.50
Large Firm General Service	72.36	28.50	35.00	6.50
Interruptible Grain Drying	402.75	-	450.00	-
Small Interruptible Sales	151.69	145.00	150.00	5.00
Small Interruptible Transport	159.63	200.00	250.00	50.00
Large Interruptible Sales	509.38	230.00	500.00	270.00
Large Interruptible Transport	403.79	260.00	560.00	300.00
Source: Hatzenbuhler Direct, pp. 18-20 and Statement E2a, pp. 1-5.				

This section addresses (1) Residential and General Service rates (level of rates and calculation of rates), (2) Small Interruptible rates, and (3) Large Interruptible and Grain Drying rates.

2. Reference to the Record

GP: Hatzenbuhler Direct, 9/27/19, pp. 12-13 & 17-21
Hatzenbuhler Rebuttal, 2/11/20, pp. 3-8
Bosch Direct, 9/27/19, pp. 10-11
Bosch Rebuttal, 2/11/20, pp. 3-9
Initial Brief, 4/10/20, pp. 37-41
Reply Brief, 4/24/20, pp. 20-23

DOC: Zajicek Direct, 1/16/20, pp. 3-61
Zajicek Rebuttal, 2/11/20, pp. 1-9
Zajicek Surrebuttal, 3/3/20, pp. 1-12
Initial Brief, 4/10/20, pp. 96-108
Reply Brief, 4/24/20, pp. 23-26

OAG: Lebens Direct, 1/16/20, pp. 2-7
Lebens Surrebuttal, 3/3/20, pp. 2-7
Initial Brief, 4/10/20, pp. 9-18
Reply Brief, 4/24/20, pp. 1-7
Exceptions, 7/13/20, pp. 3-11

GP, DOC, OAG: Joint Proposed Findings, 4/15/20, pp. 32-38

ALJ: ALJ Report, 6/30/20, pp. 88-94 & 96-97

3. Residential and Firm General Service Rates

a. Positions of the Parties and the ALJ

Great Plains seeks to increase Residential, Small Firm and Large Firm General Service rates by, respectively, $1.50, $4.50 and $6.50. It argues that it is appropriate to collect fixed costs through fixed charges and that its proposed rates are better aligned with its cost study and, as such, reduce intra-class subsidies, without introducing rate shock.[6]

DOC believes that Great Plains' proposed rates are reasonable as they would reduce intra-class subsidies and move rates closer to costs.[7]

OAG opposes any increase to these rates arguing that the increases would (1) discourage energy conservation, (2) disproportionately affect low-income customers, and (3) "is inconsistent with the intent of monopoly regulation, which is to replicate the competitive market."[8]

DOC and Great Plains believe the proposed increases would not significantly affect energy conservation behavior. DOC rejects OAG's low income argument stating that low income customers may use greater volumes of gas and, as such, they could benefit from higher fixed charges (and correspondingly lower volumetric charges). Great Plains notes that the proposed service charges are in line with other Minnesota utilities.[9]

The **ALJ** recommended adoption of Great Plain's proposal because it will reduce intra-class subsidies while avoiding rate shock.[10]

OAG takes exception to the ALJ's findings and proposes the following modifications to the ALJ Report:

> 408. The OAG articulated three reasons why the basic customer charge should not be increased: (1) it discourages conservation; (2) it disproportionately impacts low-usage users; and (3) it is inconsistent with monopoly regulation principles. ~~None of these claims were substantiated in the hearing record.~~ <u>Because retaining the existing residential and small-business customer charges would increase conservation,</u>

[6] Hatzenbuhler Direct, pp. 20-21.

[7] Zajicek Direct, p. 51.

[8] Lebens Direct, p. 3.

[9] Zajic Rebuttal, pp. 2-8; Hatzenbuhler Rebuttal, pp. 5-8.

[10] ALJ Report, pp. 90-92.

maximize customers' control over their bills, and preserve their ability to pay, the Commission adopts the OAG's recommendation not to increase them.

409. First, ~~as both the DOC DER and GP determined, the relatively small change in the basic service charge per month ($1.50 per month for residential users, $4.50 for small firm users, and $6.50 for large firm users) is not significant enough to realistically impact consumer energy conservation behavior~~ the record establishes that leaving the residential customer charge at $7.50 would encourage conservation. Specifically, the Department estimated the likely impact to be a 0.67 percent decrease in residential energy usage. The Department did not undertake a similar analysis for the small firm general service class, but it is reasonable to infer that the energy savings would be similar to the residential class's. Energy savings of 0.67 percent is significant when compared to both Minnesota's energy-savings goal (1.5 percent) and Great Plains' individual goal (1.03 percent).

410. Second, ~~the basic service charge accurately reflects fixed costs and decreases intra class subsidies. The OAG makes an assumption that low income customers are also low use customers who would benefit from costs being recovered on a volumetric basis~~ retaining the existing charges preserves customers' ability to pay by maximizing their ability to reduce their bills through reduced usage. Evidence, ~~however,~~ shows that low-income customers may actually use slightly more energy than average residential customers due to less access to energy efficient residences and appliances. ~~Thus, the proposed increase in the basic service charge could actually negatively impact low income customers.~~ Although the evidence is inconclusive on this point, low-income, high-usage ratepayers have protection from higher volumetric charges both through low-income assistance programs and through the Company's Balanced Billing Program.

~~411. Third, monopoly regulation is intended to prevent utilities from asserting monopoly power. It is not intended to unreasonably restrict how utilities collect payment. Moreover, fixed delivery charges are used by a variety of competitive market firms, such as furniture stores, hardware stores, and grocery stores, to collect fixed expenses. In GP's case, the basic customer charge is intended to recover the fixed expenses associated with connecting the customer's access to safe, reliable service regardless of the amount of natural gas consumed. Notably, the residential basic service charge is in line with the other four regulated case distribution utility companies serving Minnesota, which have residential basic service charges ranging from $8.50 to $9.50 per month.~~

~~412. For these reasons, it is recommended that the Commission approve GP's proposed increases to the residential and general service customer classes.~~

~~413. In sum, the Administrative Law Judge finds that GP's proposal to increase the basic customer charge for the residential class by $1.50 a month, the small firm general class by $4.50 a month, and the large firm general service class by $6.50 a~~

~~month is reasonable because it will reduce intra class subsidies while avoiding rate shock for customers.[11]~~

OAG argues that the "ALJ incorrectly treats rate design as a simple exercise in matching customer charges with the theoretical cost of connecting a customer to the utility's system,"[12] and the Commission has recognized that rate design may be based on a number of goals other than reducing intra-class subsidies and rate shock.

OAG also argues that maintaining customer charges would result in significant conservation. OAG draws attention to the DOC estimate that maintaining the existing residential charge at $7.50 would decrease energy usage by 0.67 percent. OAG believes this level of conservation is significant, especially if similar savings could also be achieved by the Small Firm General Service class.[13]

Further, OAG argues that the ALJ mischaracterized OAG's argument that increasing customer charges would harm low-usage customers by making reference to low-income customers.[14]

b. Staff Comment

Staff believes that OAG's reasoning has merit and encourages the Commission to explore this issue in some depth.

c. Decision Alternatives

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.

4. Residential and Firm General Service – Bill Calculation

a. Introduction

Great Plains proposes to bill Residential, Small Firm and Large Firm General Service customers a basic charge of, respectively, $0.296, $0.904, and $1.151 per day. These figures reflect average rates of $9.00, $27.50, and $35.00 per month, respectively.[15]

[11] OAG Exceptions, pp. 9-10. Note that a number of AOG's footnotes have been omitted here.

[12] OAG Exceptions, p. 4.

[13] OAG Exceptions, pp. 6-7 & 9.

[14] OAG Exceptions, pp. 7-8.

[15] Hatzenbuhler Direct, pp. 18-20.

b. Positions of the Parties and the ALJ

Great Plains states …

> Charging this fixed cost on a daily basis better matches the way customers are billed, i.e., the days between billing periods vary due to meter reading cycles and customer cut-ins and cut-outs occurring outside their normal billing cycle. Bills for service outside a normal period are currently normalized but the customer cannot readily determine how the bill was determined. A daily Basic Service Charge will allow the customer to simply multiply the number of days in service during the current billing period (now shown on the bill) times the applicable Basic Service Charge, also presented on customers' bills.[16]

DOC opposes Great Plains' proposal, concluding …

> … the Company's proposal would increase the complexity of customers' bills rather than decrease it as the Company suggests. While it is possible that the daily charge would better align the costs with the actual time period, any variation in customer charges on bills would be extremely small. One of the Commission's four general rate design principles is that rates should be understandable and easy to administer. A monthly customer charge is far simpler for customers to understand that a daily rate and results in almost exactly the same overall results. Indeed, to determine the proposed rate, the Company appears to have chosen a set monthly rate and divided it by the total number of days in a year, resulting in effectively the same final result. Therefore, I recommend that the Commission reject the Company's proposal and require Great Plains to continue administering the customer charge via a monthly fixed customer charge.[17]

OAG opposed any increases to the basic customer service charges (see section, above).

The **ALJ** recommended the Commission reject Great Plains' billing proposal for reasons identified by DOC.[18]

c. Staff Comment

Staff supports the ALJ's reasoning.

d. Decision Alternatives

521. Approve Great Plains' billing method proposal.

522. Reject Great Plains' billing method proposal.

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[16] Hatzenbuhler Direct, p. 19.

[17] Zajicek Direct, pp. 51-51.

[18] ALJ Report, pp. 92-93.

523. Take other action.

5. Small Interruptible

a. Introduction

Great Plains proposed an increase in Small Interruptible Sales of $5.00 (from $145.00 to $150.00), and an increase in Small Interruptible Transport of $50.00 (from $200.00 to $250.00).

b. Position of the Parties and the ALJ

DOC did not disagree with these rate increases.

OAG did not address these rate changes.

The **ALJ** finds these increases to be reasonable.

c. Staff Comment

Staff believes Great Plains' proposal is reasonable.

d. Decision Alternatives

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.

6. Large Interruptible & Grain Drying

a. Introduction

Great Plains introduced a new rate class, Interruptible Grain Drying, priced at $450.00 per month. It also proposed an increase to Large Interruptible Transport of $300.00 per month (from $260.00 to $560.00).

b. Position of the Parties and the ALJ

Great Plains introduced a new rate class, Interruptible Grain Drying, priced at $450.00 per month. It also proposed an increase to Large Interruptible Transport of $300.00 per month (from $260.00 to $560.00).

DOC argued that both Interruptible Grain Drying and Large Interruptible Transport should be set at $400.00 to better match the CCOSS.[19]

Great Plains does not oppose DOC's recommendation regarding Grain Drying, but if the Commission chooses to set the Large Interruptible Transport rate at $400.00, Great Plains would propose to set the Large Interruptible Sales rate be set to $355.00 to maintain the existing relationship between the classes.[20]

DOC responded, agreeing to Great Plains' proposal to set the Large Interruptible Sales rate at $355.00 if the Commission adopts the $400.00 charge for Large Interruptible Transport.[21]

The **ALJ** recommended approval of a rate of $400.00 for both Interruptible Grain Drying and Large Interruptible Transport, and a rate of $355.00 for Large Interruptible Sales.[22]

c. Staff Comment

Staff believes the rates recommended by the ALJ are reasonable. That said, Staff would draw the Commission's attention to what may be typos in the ALJ Report, paragraphs 402 and 418. In both paragraphs the ALJ has stated that the difference between the current and proposed charges for Interruptible Grain Drying is $350.00. If the other figures for that rate class are correct that figure should be $305.00. Verification by the parties would be appreciated.

d. Decision Alternatives

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. Approve the rates initially proposed by Great Plains for Interruptible Grain Drying, Large Interruptible Transport, and Large Interruptible Sales at, respectively, $450.00, $560.00, and $500.00.

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[19] Zajicek Direct, p. 53.

[20] Hatzenbuhler Rebuttal, pp. 3-5.

[21] Zajicek Rebuttal, pp. 2-5.

[22] ALJ Report, p. 93-94, 96.

544. Take other action.

D. Margin Sharing Credit

1. Introduction

Great Plains seeks to introduce a Margin Sharing Credit (MSC) as part of its Revenue Decoupling Mechanism (RDM). The proposed MSC is based on sales to a single large industrial customer that represents approximately nine percent of Great Plains' distribution margin (i.e. non-gas revenue). That MSC customer's margin would be shared with all customers with the exception of those customers served under flexible (i.e. competitive, market-based) transportation contract rates. DOC does not oppose Great Plains' proposal.

2. Reference to the Record

Great Plains:	Hatzenbuhler Direct, 9/27/19, pp. 14-16 Kivisto Direct, 9/27/19, p. 14 Bosch Direct, 9/27/20, pp. 10-11 Bosch Rebuttal, 2/11/20, pp. 5-9
DOC:	Zajicek Direct, 1/16/20, pp. 34-40 Zajicek Surrebuttal, 3/3/20, pp. 6-8
ALJ:	ALJ Report, 6/30/20, pp. 94-96

3. Positions of the Parties and the ALJ

Great Plains states that if it lost a single large customer it would need to immediately file a rate case in order to cover costs from its remaining customers.[23] Great Plains estimates that the single MSC customer will generate $877,041 of Great Plains' requested revenue increase, referred to as the Target Market Sharing Increase (TMSI). That TMSI would be distributed among Great Plains' other customer classes based on Great Plains proposed class revenue apportionment (having removed the MSC customer). Great Plains explains the effect of the mechanism:

> In effect, rates have been designed so that if the margin sharing customer utilizes volumes projected in this rate case in a given year there is no impact to the remaining customers. If the margin sharing customer has increased volumes and generates more than the expected $877,041 of margin, all remaining customers will ultimately benefit by receiving the full amount in a credit. In the event the customer falls short of the expected margin contribution, the remaining customers will receive

[23] Kivisto Direct, p. 14; Bosch Direct, pp. 10-11; Hatzenbuhler Direct, pp. 14-16.

> smaller credits and ultimately make up the difference. In the event the margin sharing customer were to cease operating, the remaining classes would not receive any credit. In this scenario the need for an immediate and costly general rate case due to the loss of one customer would be avoided.[24]

Great Plains states that it has margin sharing mechanisms in two of its Montana-Dakota jurisdictions.[25]

Great Plains proposes to administer its MSC through its RDM tariff:

> **Margin Sharing Credit:** at the time of each RDM adjustment, the Company will compute a Margin Sharing Credit (MSC) based on the margin revenues collected from the identified customer authorized in Docket No. G004/GR-19-511, including any prior period over or under collected balances. The MSC will be allocated to the various rate classes based on the Margin Sharing Allocation authorized in Docket No. G004/GR-19-511.
>
> The per unit credit shall be determined by dividing each rate class' MSC allocation by the forecasted volumes for each rate class of customers, excluding flexible rate contract customers. The MSC rate per Dk will be a component of the RDM rate billed customers.[26]

DOC does not oppose Great Plains' proposal.[27] DOC believes that Great Plains' proposal makes sense.

> Great Plains' other customers absorb the risk that the large interruptible customer will reduce its usage volume, and corresponding revenues, below the estimated level. However, the other customers also gain the benefits if the large interruptible customer increases its usage volume, and corresponding revenues, above the estimated level. … As such, if the margin sharing customer shuts down or reduces usage in the future, then the margin sharing mechanism would allocate costs to other customers consistent with the rate design approved in this rate case.[28]

DOC goes on to say …

> … While unusual, the proposal does not discriminate against any other rate classes and could potentially result in savings to customers by avoiding future rate case costs that might otherwise be incurred specifically due to the interruptible service customer shutting down or significantly reducing operations. Further the proposal is

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[24] Hatzenbuhler Direct, p. 15.

[25] Bosch Direct, p. 11.

[26] Gas Rate Schedule, Volume 3, 5-126, emphasis in original; see Volume I, General Rate Petition.

[27] Zajicek Direct, pp. 34-40.

[28] Zajicek Direct, p. 37.

symmetrical so that the customers could potentially experience reduced rates if the interruptible service customer increases its natural gas consumption.[29]

Although not objecting to Great Plains' proposal, DOC offered some recommendations in the event the Commission approves the proposal. DOC recommended:

- "the Company file a compliance filing each year showing the actual volumes purchased by the interruptible service customer and associated revenues, the corresponding total credits, and discussing the overall impact on customers" and

- "the revenue sharing mechanism be re-examined in the Company's next rate case or 5 years after the Commission's Order in this matter, whichever occurs first."[30]

Great Plains does not oppose the above recommendations.[31]

DOC also noted that the future of Great Plains' RDM remains open after 2021 and it asked Great Plains to recommend an alternative method for administering the MSC should the RDM process cease to be viable.[32]

Great Plains responded that if the Commission discontinues the RDM after 2021 it could continue to administer the MSC through the MSC component of the RDM (shorn of its other terms). Alternatively, if the RDM is discontinued the Commission could establish an MSC mechanism at that time. Great Plains believes the Commission has the authority to do so.[33]

DOC believes Great Plains' proposal is reasonable.[34]

The **ALJ** stated …

> Based upon the recommendations of the DOC-DER and the agreements of the Company, the Administrative Law Judge recommends that the Commission: (1) approve the incorporation of GP's proposed margin sharing mechanism into the RDM; (2) require the Company to make an annual compliance filing, as described above; and (3) require that the revenue sharing mechanism be reviewed in the Company's next rate case or within five years from the Commission's order, whichever occurs first.[35]

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[29] Zajicek Direct, p. 38.

[30] Zajicek Direct, p. 39.

[31] Bosch Rebuttal, p. 5.

[32] Zajicek Direct, p. 40.

[33] Bosch Rebuttal, pp. 5-9.

[34] Zajicek Surrebuttal, p. 7.

[35] ALJ Report, para. 434, p. 96.

4. Staff Comment

Staff believes the ALJ's recommendation is reasonable.

5. Decision Alternatives

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

552. Reject Great Plains' Margin Sharing Credit proposal.

E. Customer Service Extension Tariff

1. Introduction

On March 31, 1995, the Commission established guidelines for parties in addressing service extension policies in future rate cases.[36] Great Plains and DOC have followed those guidelines in their analyses. Specifically, the Commission stated:

> With respect to the reviews to be conducted in future rate cases, the Commission would like the Department and the parties to address the following kinds of questions:
>
> - Should the "free" footage or service extension allowance include the majority of all new extensions with only the extremely long extensions requiring a customer contribution-in-aid-of-construction (CIAC)?
> - How should the LDC [local distribution company] determine the economic feasibility of service extension projects and whether the excess footage charges are collected?
> - Should the LDC's service extension policy be tariffed in number of feet without consideration to varying construction costs amongst projects or should the allowance be tariffed as a total dollar amounts per customer?
> - Is the LDC's extension charge refund policy appropriate?
> - Should customers be allowed to run their own service line from the street to the house (or use an independent contractor) if it would be less expensive than having the utility construct the line?

[36] *In the Matter of an Inquiry into Competition between Gas Utilities in Minnesota*, Docket 90-563.

- Should the LDC he required to offer its customers financing for service extension charges? This could be offered as an alternative to paying extension charges in advance of construction.[37]

Further, the Commission stated:

> [T]he Commission has concern about the impact of service extension related additions (projects involving multiple customers) on the company's rate base. In future rate cases, the Commission will request the Department to investigate the company's service extension-related additions to rate base to make sure
>
> 1. that LDCs are applying their tariffs correctly and consistently,
>
> 2. that they are appropriately cost and load justified, and
>
> 3. that wasteful additions to plant and facilities are not allowed into rate base.[38]

2. Reference to the Record

Great Plains:	Bosch Direct, 9/27/19, pp. 16-25
DOC:	Zajicek Direct, 1/16/20, pp. 3-21
ALJ:	ALJ Report, pp. 80-82

3. Party Positions and the ALJ

Great Plains states that the Commission approved its current policy in December 2012 (Docket12-303).[39] Great Plains proposed two changes to that tariff …

> The first is to update the Levelized Annual Revenue Requirement Factor (or LARR) to reflect the level of costs and proposed capital structure included in this docket [14.276 percent].
>
> The second is to update the revenue components included in the MAI calculation to include the revenue associated with the Gas Utility Infrastructure Cost Adjustment (GUIC) and the proposed Margin Sharing Credit (MSC).
>
> The inclusion of the GUIC revenue is appropriate as the Company's GUIC's rates are designed to recover the costs of investments and expenses related to the replacement of natural gas distribution facilities. The costs are recovered through

[37] Order in Docket 90-563, March 31, 1995, pp. 6-7.

[38] Order in Docket 90-563, March 31, 1995, p. 7.

[39] Bosch Direct, p. 23.

the GUIC rate mechanism until such time as Great Plains files a rate case and those costs are moved into base rates.

The inclusion of the MSC revenue in the MAI calculation provides the total margin revenue the Company can expect from the anticipated additional load. Absent the MSC in the cost formula, the margin the Company can expect to receive would be overstated.[40]

DOC summarizing its conclusions regarding the nine points cited above, stating …

[T]he Company has generally applied its extension tariff consistently and correctly since 2015. I also conclude that Great Plains has shown that its service-related additions are cost and load justified and that the Company's extension practices appear to have generally been applied in a manner that avoids wasteful additions to the Company's rate base.[41]

With respect to the LARR and MAI changes, DOC concludes "that Great Plains' proposal is reasonable as long as the LARR and MAI changes are updated to reflect the Commission's final order on the Company's proposed margin sharing credit and any changes to the GUIC revenues."

OAG did not address Great Plains' extension policy.

ALJ did not make a recommendation specific to Great Plains' proposed two modifications to its service extension policy but found that DOC concluded that Great Plains' proposal is reasonable with the conditions described above. (ALJ Finding 369)

4. Staff Comment

Staff believes that Great Plains' LARR and MAI changes are reasonable.

5. Decision Alternatives

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.

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[40] Bosch Direct, pp. 24-25.

[41] Zajicek Direct, p. 21.

II. Revenue Decoupling

PUC Staff: Jorge Alonso

1. Introduction

Great Plains' revenue decoupling mechanism (RDM) was approved as a three-year pilot program in the Company's 2015 rate case and became effective on January 1, 2017. Subsequently, the pilot has been extended through December 31, 2020.[42]

Included in Great Plains' initial rate case filing in this proceeding, the Company requested to extend the pilot indefinitely and, effective January 1, 2021, proposed the Large Interruptible Class be removed from the pilot.

Included in the Commission's November 22, 2019 Order[43] referring this proceeding to the Office of Administrative Hearings requested that a record be developed on the following RDM-related issues:

- Should the pilot be extended beyond 2020 and, if so, for how long?
- Should the proposed margin sharing mechanism be incorporated into the RDM?
- Should a minimum energy savings level be required in order to implement a surcharge?

Department witness Davis addressed RDM. The OAG was silent on this issue.

2. Reference to the Record

GP:	Hatzenbuhler Direct, pp. 21-28 Hatzenbuhler Rebuttal, pp. 8-13 Hatzenbuhler Testimony Summary (Exhibit GP-26)
DOC:	Davis Direct, all Davis Surrebuttal, all Davis Testimony Summary (Exhibit DER-20) Initial Brief, pp. 108-112
GP, DOC, OAG:	Joint Proposed Findings, pp. 39-40
ALJ:	ALJ Report, pp. 97-100

3. Positions of the Parties

[42] Commission January 13, ,2020 Order, Docket G-004/M-19-198.

[43] Commission November 22, 2019 Order, page 2.

a. Great Plains - Initial Filing

Great Plains' initial filing proposed to extend the RDM indefinitely. The Company reasoned that the RDM better aligns its business objectives with the state's goal of expanded energy conservation and customers' general desire to use energy as efficiently as possible. Furthermore, RDM does not present any customer downside. In a worst-case scenario, RDM classes pay the authorized non-gas revenue. Conversely, in the event of an abnormally cold heating season, the RDM helps mitigate customer impact.

Great Plains proposed that, starting in 2021, the Large Interruptible Classes be removed from the RDM. The main reason for the request is that these classes are small and there is a large disparity in its customers' consumption. Therefore, if a larger customer were to leave, the RDM impact to the remaining customers could be significant.

Finally, Great Plains argued that decoupling is intended to remove its disincentive to promote energy conservation and efficiency; therefore, to establish an energy savings threshold would contravene the very mechanisms that are designed to allow the utility to freely pursue that conservation goals. The Company stated that if the energy savings threshold is approved, it would withdraw its RDM support.

b. Department of Commerce – Direct Testimony

Based on its evaluation of Great Plains' annual first year Dk savings, both pre- and post- RDM, the Department concluded that it is reasonable to extend Great Plains' RDM through 2021. The extension will allow the Commission to consider future CIP results. The DOC noted that Great Plains' savings significantly decreased after the 2017 RDM implementation; however, 2018 savings increased and stated that it will evaluate Great Plains' 2019 and 2020 actual CIP achievements in 2021. If Great Plains continues to achieve low Dk savings through 2020, the Department will consider recommending that the Commission discontinue the Company's RDM.

Since it recommended that the Commission evaluate the Company's RDM in 2021, the DOC recommended that no savings threshold be established at this time. However, if the Commission decides that a threshold is needed, then the Department recommended that it be set at 13,000 Dk.

The Department mentioned that, to avoid a situation where one customer changing its operations can have a very large impact on the other customers, it is reasonable to exclude customer classes with 50 or fewer customers from RDMs. Therefore, the DOC concluded that excluding the large interruptible classes is reasonable.

c. Great Plains – Rebuttal

In Rebuttal, subject to its interpretation of the Department's recommendations, Great Plains did not object to the DOC's recommendations.

d. Department of Commerce – Surrebuttal

In Surrebuttal, the Department confirmed Great Plains interpretation of its recommendations was correct.

4. ALJ Report

The ALJ recommended that the RDM pilot continue through the end of 2021, that, starting in 2021,[44] the Large Interruptible customer class be removed from the RDM,[45] and that no minimum savings be established.[46]

5. Staff Comment

Staff considers the agreement that the RDM pilot continue through the end of 2021, that, starting in 2021, the Large Interruptible customer class be removed from the RDM, and that no minimum savings be established to be reasonable.

6. Decision Alternatives

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)

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[44] ALJ Report, Finding 443.

[45] ALJ Report, Finding 448.

[46] ALJ Report, Finding 453.

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

580. Establish a different energy savings threshold.