MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	December 23, 2020	Agenda Item 4**
Company	Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co. (GP, Great Plains, Company)	
Docket No.	**G-004/M-20-335**	
	In the Matter of the Petition of Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Approval of its Revenue Decoupling Mechanism Rates and Decoupling Evaluation Report for Year 3 of its Pilot Program	
Issues	Should the Commission accept Great Plains' third annual revenue decoupling report for the calendar year evaluation period ended December 31, 2019 and approve Great Plains' revenue decoupling rate adjustments?	

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✓ Relevant Documents	Date
Docket No. G-004/M-19-198	
PUC – Order Approving a One-Year Extension to Great Plains Three-Year Pilot Revenue Decoupling Program	January 13, 2020
Docket No. G-004/M-20-335	
Great Plains – Revenue Decoupling Mechanism Rate and Decoupling Evaluation Report for Year 3 of Pilot Program (TS)	February 28, 2020

Relevant Documents	**Date**
Great Plains – Revenue Decoupling – CIP Supplement	May 1, 2020
Department of Commerce – Comments	June 1, 2020
Great Plains – Reply Comments	June 10, 2020

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I. Statement of the Issues

Should the Commission accept Great Plains' third annual revenue decoupling report for the calendar year evaluation period ended December 31, 2019 and approve Great Plains' revenue decoupling rate adjustments?

II. Introduction

On February 28, 2020, Great Plains filed its Revenue Decoupling Mechanism Rates and Decoupling Evaluation Report for Year 3 (calendar-year 2019) of the RDM Pilot Program.

On May 1, 2020, Great Plains filed its CIP Supplement to the Revenue Decoupling Mechanism Rates and Decoupling Evaluation Report for Year 3 of Pilot Program.

On June 1, 2020, the Department submitted comments recommending that the Commission approve the RDM factors with modification; the proposed tariff language as presented in Great Plains' February 28, 2020 filing, with modification, and also recommended allowing the Company to continue its RDM Pilot for calendar year 2020.

On June 10, 2020, Great Plains filed reply comments disagreeing with the Department's recommended modification and further explaining the Company's CIP program.

On June 30, 2020, Administrative Law Judge (ALJ) Ann C. O'Reilly, issued her *Findings of Fact, Conclusion of Law, and Recommendation* in Great Plains' recently concluded rate case.[1] One of the ALJ's recommendations was that the Decoupling Pilot be extended through December 31, 2021.

On October 26, 2020, the Commission issued its *Findings of Fact, Conclusions, and Order* in Great Plains' rate case. That Order adopted most of the ALJ's recommendations, including the one that extended the Company's RDM through December 31, 2021.

III. Background

On September 30, 2015, in its 2015 application for a general increase in rates (the 2015 rate case),[2] Great Plains proposed a three-year, full revenue decoupling mechanism (RDM) as a pilot program with no upward or downward cap on rate adjustments (i.e., symmetrical, with no caps on the rate adjustments).[3]

[1] Docket G-004/GR-19-511.

[2] In the Matter of the Petition by Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc., for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-004/GR-15-879.

[3] Aberle Direct, pages 23-29.

On September 6, 2016, in Ordering Point 26 in the Commission's 2015 rate case Order,[4] the Commission approved a three-year pilot full revenue decoupling program for Great Plains that included an asymmetrical cap, i.e. there is no cap on how much can be refunded.

On December 22, 2016, as part of the Commission's Order in the rate case,[5] Great Plains was authorized to implement final rates effective January 1, 2017. Additionally, Great Plains was ordered to submit final tariff sheets that incorporate the Commission's decision.

On January 3, 2017, Great Plains submitted its Final Rates Compliance Filing.[6] Consistent with the December 22, 2016 Order, this filing included final tariff sheets. Final rates that were implemented on January 1, 2017. This compliance filing included Section 5 Original Sheet Nos. 125-126 which were revised to reflect the time periods of the pilot revenue decoupling program and its first annual evaluation report.

On December 1, 2017, Great Plains submitted its first annual evaluation report (Report) for its pilot revenue decoupling program. This report's evaluation period (Evaluation Period) was from October 1, 2016 through September 30, 2017.

On February 7, 2019, the Commission issued its *Order Accepting Decoupling Report as Modified, and Providing Instructions for Future Reports*. The February 7, 2019 Order accepted Great Plains' 2017 revenue decoupling report but modified the decoupling adjustments to reflect the calendar-year period of January 1, 2017 to December 31, 2017 and the requirement that Great Plains incorporate a new customer that was previously excluded. Additionally, the Commission permitted Great Plains to continue to adjust its sales data to reflect normal weather calculated over a period of 30 years. Finally, the Commission ordered GP to do the following in future annual decoupling reports:

- Develop its report to reflect data from the prior calendar year.
- File its reports by March 1 of the year following the period evaluated—for example, by March 1, 2019, for calendar year 2018.
- Initiate a new docket when filing an evaluation report.

On March 1, 2019, Great Plains filed its Revenue Decoupling Mechanism Rates and Decoupling Evaluation Report for Year 2 (calendar-year 2018) of the RDM Pilot Program.

On March 5, 2019, at its agenda meeting (and in a March 29 Order subsequent to the meeting), the Commission decided to require Great Plains to refund $54,456 to ratepayers due to the omission of a large customer from Great Plains' 2015 rate case and to effect this refund through an amendment to the Company's 2019 RDM filing.[7]

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[4] Docket No. G-004/GR-15-879, Findings of Fact, Conclusions and Order, September 6, 2016.

[5] Docket No. G-004/GR-15-879, Order Approving Final Revenue Apportionment and Rate Design, Updated Base Cost of Gas and Interim-Rate Refund Plan, December 22, 2016.

[6] Docket No. G-004/GR-15-879, Great Plains, Final Rates Compliance Filing.

[7] Docket No. G-004/GR-15-879, Order Approving Refund, March 29, 2019.

On March 8, 2019, Great Plains filed its "Revenue Decoupling Mechanism Rates Update" reflecting the Commission's Decision Options 1, 4, and 7 as presented in the Staff's Briefing Papers.[8] The data and RDM rates were updated to include a previously excluded customer and to include the 2016 revenue refund of $54,456 as required in the pending order.

On June 3, 2019, the Department submitted comments recommending that the Commission approve the RDM factors and proposed tariff language as presented in Great Plains' March 8, 2019 updated filing and also recommended allowing the Company to continue its RDM Pilot for calendar year 2019.

On June 13, 2019, Great Plains filed reply comments agreeing with the Department's comments and re-affirming the Company's commitment to promote its CIP program.

On August 22, 2019, at its agenda meeting (and in an August 23 Order subsequent to the meeting), the Commission decided to approve Great Plains RDM factors and proposed tariff changes as presented in the Company's updated March 8, 2019 filing; authorized continuation of the RDM Pilot for calendar year 2019; and required filing of the annual revenue decoupling calculations by March 1, 2020 and the full evaluation report by May 1, 2020.[9]

On January 9, 2020, at its agenda meeting (and in a subsequent January 13, 2020 Order), the Commission approved a one-year extension to Great Plains pilot Revenue Decoupling Mechanism Rider and directed the Company to update its tariff sheets to reflect the extension.[10]

IV.Relevant Statute

Minn. Stat. §216B.2412, Decoupling of Energy Sales from Revenues

According to Minn. Stat. §216B.2412, the objective of revenue decoupling is to:

A. Reduce Great Plains' disincentive to promote energy efficiency by making the Company's revenue less dependent on energy sales.

B. Achieve energy savings, and

C. Not harm ratepayers.

[8] Docket No. G-004/GR-15-879, Briefing Papers – March 5, 2019 Agenda, February 28, 2019, Page 9.

[9] Docket G-004/M-19-198, Order, August 23, 2019.

[10] Ibid, Order, January 13, 2020.

V. Parties' Comments

A. Great Plains – Petition

On February 28, 2020, Great Plains submitted its Year 3 full Decoupling Evaluation Report for the period of January 1, 2019 through December 31, 2019.

The Company noted that, in its August 23, 2019 Order, the Commission directed that future RDM Annual Reports - including the annual decoupling calculations - be filed by March 1 of each year and a full evaluation report that includes the most recent results of Great Plains' Conservation Improvement Program be filed by May 1.

1. Revenue Accrued and Collected Under Full Revenue Decoupling

To determine each rate class' adjustments, Great Plains' RDM pilot compares actual non-gas revenue to the Designed Revenue for the period. Designed Revenue is defined as the product of the greater of the actual or authorized customer counts multiplied by the authorized margin per customer for that month. Determining Designed Revenue in this manner allows for the authorized non-gas margin to adjust for customer growth and protects against unintended consequences that can arise if customer counts decline. When actual revenue exceeds Designed Revenue, the excess is refunded to customers. When Designed Revenue exceeds actual revenue, the shortfall is charged to customers. As authorized in Docket No. G-004/GR-15-879, decoupling adjustments are also evaluated against each customer class' ten percent of Designed Revenues (for surcharges only) revenue cap. There are no caps on refunds.

On February 28, 2020, Great Plains filed its "Revenue Decoupling Mechanism Rates and Decoupling Evaluation Report for Year 3 of Pilot Program" reflecting the Commission's August 23, 2019 Order approving the revenue decoupling mechanism; tariff changes; RDM Pilot continuation for calendar year 2019; and authorizing the Company to file its RDM report by March 1 and a full evaluation report (including CIP results) by May 1.

Great Plains noted that an authorized flexible rate customer in the 2015 rate case moved to the maximum distribution rate under the N82 rate class. To account for this, Great Plains added the former flex customer's volumes to the authorized N82 class; increased the N82 authorized customer count by one; and included the customer as part of the decoupling calculation. Great Plains said that "[s]imply treating the customer as a 'new' customer and leaving authorized levels unchanged would be improper because the customer's authorized volumes exceed those of the average of the class and would thus result in the Company needlessly forfeiting authorized margin".[11] The calculations for the Large Interruptible Rates N85 and N82 classes is included in GP's petition as page 8 of Attachment A.

Further, the Company pointed out that, as of January 1, 2018, a Rate S82 customer from the 2015 rate case is now being served at the maximum rate per Dk under a flexible rate contract. In order to account for this, Great Plains said:

[11] Great Plains Petition, February 28, 2020, p. 11.

Consistent with the treatment noted in the Company's second evaluation report and to again properly recognize the actual non-gas revenue the Company received from this customer in 2019, while at a rate other than the Rate S82 maximum rate, Great Plains adjusted the decoupling calculation for the Large Interruptible S85-S82 rate class - specifically to the computation of the actual non-gas revenue for the class.

Actual non-gas revenue was computed in two steps. First, all volumes excluding the volumes for the customer served under a rate less than the maximum were multiplied by the authorized S85/S82 distribution rate. Second, actual volumes for the contracted-rate customer were multiplied by that customer's contractual distribution rate. These two amounts were summed and compared to the designed non-gas revenues for the class to determine the surplus/shortfall of revenue. No adjustments were made to authorized volumes or customer counts.

The calculations for the Large Interruptible Rates S85 and S82 class is included in GP's petition at page 9 of Attachment A.

Table 1, below, shows a summary of the decoupling adjustment by rate class for the 2019 calendar year, including any adjustments to reflect the 10% cap and prior-period adjustments, for the total balance to be surcharged or refunded to customers.

Table 1: Decoupling Adjustment Balance through December 31, 2019 1/[12]

Rate Class	Uncapped 2019 Decoupling Adjustment	Capped Adjustment	Adjustment to Reflect 10% Cap	Capped 2019 Decoupling Adjustment	Prior Period Adjustment	Net Balance as Filed March 1, 2020 2/
Residential Rate - N60	($86,791)	$189,936	$0	($86,791)	($60,290)	($147,081)
Residential Rate - S60	(111,198)	216,988	0	(111,198)	(53,713)	(164,911)
Firm General - N70	(44,587)	105,293	0	(44,587)	(12,790)	(57,377)
Firm General - S70	(20,880)	152,162	0	(20,880)	28,030	7,150
Small Interruptible - N71 & N81	37,348	53,670	0	37,348	(14,561)	22,787
Small Interruptible - S71 & S81	(39,573)	54,122	0	(39,573)	(145)	(39,718)
Large Interruptible - N85 & N82	1,871	25,684	0	1,871	8,445	10,316
Large Interruptible - S85 & S82	71,585	54,054	(17,531)	54,054	15,542	69,596
Total Under/(Over) Collection	**($192,225)**	**$851,909**	**($17,531)**	**($209,756)**	**($89,482)**	**($299,238)**
1/ Excluding flexible rate contract customers as authorized in Docket No. G004/GR-15-879. 2/ Balance as of March 31, 2020.						

Overall, the net decoupling balance due to customers is $299,238 - inclusive of the prior period adjustments. Based on forecasted volumes for the period April 1, 2020 through March 31, 2021, the rate classes will be refunded or surcharged on a per Dth basis beginning April 1, 2020.

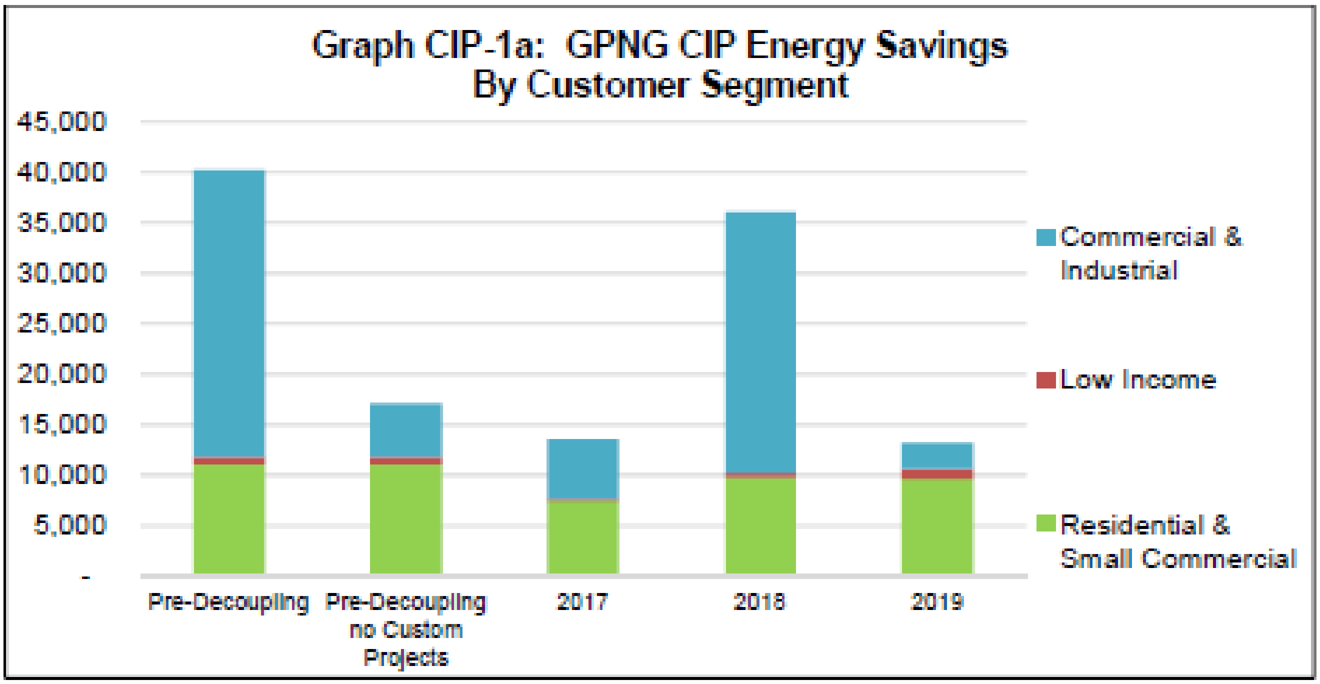
2. Evaluation of Great Plains' Commitment to Increased Energy Savings

[12] Great Plains Petition, February 28, 2020, Table C-1a, p. 8.

On May 1, 2020, Great Plains filed its CIP Supplement to the Decoupling Evaluation Report comparing the Company's energy conservation efforts in the pre-decoupling period (2013 through 2016) to the post-decoupling period of 2017 through 2019.

Great Plains noted that, except for the low-income customer group which had a 49 percent increase in savings during 2019, the Company's overall CIP savings did not surpass the pre-decoupling averages as shown in Figure 1 below.

Figure 1: GP CIP Energy Savings by Customer Segment



Great Plains stated that it offers a very robust CIP program. However, the Company noted that annual CIP program results will continue to vary significantly due to reliance on large custom projects in order to meet its annual energy savings goals.

B. Department of Commerce Comments

1. Background

On September 6, 2016, the Minnesota Public Utilities Commission (Commission) issued its Order in Great Plain's 2015 General Rate Case[13]. Part of this order included authorization for a full Revenue Decoupling Mechanism (RDM) Pilot under Minn. Stat. §216B.2412. This RDM Pilot applied to all GP rate classes, except:

- Flexible rate customers. By statute, a utility may not charge a customer receiving service based on flexible rates less than its incremental cost; a decoupling adjustment might cause the rate to dip below that level, and;

- One Large Interruptible Transportation customer that has received Commission approval to be exempt from the state's Conservation Improvement Program (CIP).

The Department noted that Ordering Point 26.B in this September 6 Order required the Company to include the calculations of its decoupling adjustments using the per-customer method and the per-customer-class method in its annual reports and the final pilot report.

2. Overview

The Department stated that the purpose of Great Plains' RDM Pilot is to eliminate GP's throughput incentive, thus removing Company disincentives to encourage customers to invest in energy savings. The RDM Pilot allows Great Plains to recover its authorized revenues for non-fuel costs, regardless of the cause for any other variation (weather, economic factors, etc.), when adjusted for customer growth up to an approved revenue cap.

Great Plain's RDM adjustments are based on the difference between authorized revenues (referred to as "Designed Revenues" in the model) and actual revenues, both on a per rate class basis. The authorized revenues are calculated by multiplying the "Authorized Margin per Customer"[14] by the greater of either the number of customers in each class authorized in the last rate case or the actual number of customers per rate class, Any excess revenue will be returned to customers and any shortfalls (up to 10 percent of non-gas margin revenues) will be surcharged.

The Department pointed out that this structure benefits Great Plain's shareholders beyond removing the throughput incentive. This is so because the

> Designed Revenues" are based on the higher of either the number of customers from the last rate case or from any increase in the actual number of customers.

[13] Docket No. G-004/GR-15-879, September 6, 2016, *Findings of Fact, Conclusions of Law, and Order.*

[14] The "Authorized Margin per Customer" equals the non-gas revenues divided by the number of customers per rate class as authorized in Great Plains' last rate case.

> Therefore, the Department said that "Great Plains' shareholders benefit from any growth in the number of customers and shift to ratepayers any risk of a decline in the number of customers.

The Department stated that this feature of the RDM design will likely warrant adjustment in the future.

The Department's review and analysis of Great Plains' revenue decoupling model evaluation included the following:

- Great Plains' CIP data for calendar years 2013-2016 (referred to in these Comments as "Pre-RDM");
- the Company's CIP data for calendar years 2017-2019 (referred to as "RDM Pilot Years 1-3," "RDM Years 1-3," or "Pilot Years 1-3");
- the Company's CIP data in the 2019 calendar year (referred to as the "2019 Evaluation Year" or "RDM Pilot Year 3"); and
- the proposed RDM rates over the recovery period from April 1, 2020 to March 30, 2021.

3. Proposed Decoupling Adjustments

The Department stated that Great Plains is reporting on the 2019 calendar year in this third Evaluation Report. Great Plains tracked revenues for all its customer classes and excluded sales and revenue only for its CIP exempt and flexible rate customers. Beyond this, there were two exceptions, discussed below.

Exception 1

During the 2018 calendar year (Pilot Year 2), a former Large Interruptible (IT) South-82 customer became a flexible rate customer, which meant that it was no longer in a decoupled rate class (flexible rate customers are excluded from the RDM).

Great Plains accounted for this change by leaving the S82 class authorized revenues and customer count unchanged, but used the actual, lower margins under the flexible rate class to calculate the actual revenues. GP argued that a correction was required, since ignoring the impact would assume that the customer was contributing zero margins.

The Department said:

> Under such an approach, an amount equal to the entire margin from the IT class, multiplied by sales to the flexible-rate customer would be inappropriately recovered through the RDM. In its review of the Company's Second Evaluation Report, the Department concluded that Great Plains' treatment was reasonable (see Department's June 3, 2019 Comments in Docket No. G004/M-19-198).

Exception 2

During the 2019 calendar year (Pilot Year 3), a former flexible rate customer became a Large Interruptible (IT) North-82 customer, which meant that it moved from an RDM excluded class to a decoupled rate class. (Note: this is almost an exact opposite of the circumstances described as Exception 1, above.) The Department said that, "[i]nstead of leaving the authorized revenues and customer count unchanged in the decoupling calculation (as it had done for the S82 customer), the Company added the N82 to both the authorized customer count and revenues.

Great Plains justified this treatment by arguing:

> Because the existing customer moved from a flex rate not previously subject to decoupling it is appropriate to adjust the authorized levels for the class the customer is now part of in recognition of the fact the customer was previously contributing margin for the benefit of all customers. Simply treating the customer as a 'new' customer and leaving authorized levels unchanged would be improper because the customer's authorized volumes exceed those of the average of the class and would thus result in the Company needlessly forfeiting authorized margin.[15]

The Department stated that Great Plains' proposed adjustment must be revised. It should be adjusted to reflect the revenues that the flexible-rate customer contributed to the last rate case, since the total revenues from the rate case are known facts that form the basis for GP's rates. The Company should calculate the decoupling adjustment using the customer's flexible-rate revenues from the rate case as the authorized (Designed) revenues. The customer's actual revenues should remain in the N82 class. Using this method, the customer's actual N82 revenues are compared to the customer's test year revenues as used in base rates.

The Department explained an alternative approach:

> … treat both customers that switched services as if they had not done so, as Great Plains proposes to do in this case. This approach allows Great Plains to continue to collect the same amount of revenues as set in the prior rate case. This approach would require changing the decision made in Docket No. G004/M-19-198, so that the revenues from the customer that switched from Large IT-South 82 to flexible rates would continue to be included in the decoupling adjustment as if the customer had not made such a switch. **Either approach is supportable, but using contradictory approaches is not.** [Emphasis added]

The Department went on to point out that the most straightforward approach would be to use the same one that was used in the last revenue decoupling docket (G-004/M-19-198).

The Department summarized GP's proposed decoupling adjustments[16] in the table below.

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[15] GP Petition, February 28, 2020, Decoupling Evaluation Report, P. 11.

[16] Ibid, Decoupling Evaluation Report, Section C.

Table 2: Great Plains' Proposed Decoupling Adjustments[17]

Rate Class	Decoupling Adjustment Balance Calendar Year 2018	Cap Adjust	Under/(Over) Prior Period Adjustment	Net Balance
Residential Rate – N60	($86,791)	$0	($60,290)	($147,081)
Residential Rate – S60	($111,198)	$0	($53,713)	($164,911)
Firm General – N70	($44,587)	$0	($12,790)	($57,377)
Firm General – S70	($250,880)	$0	$28,030	$7,150
Small Interruptible – N71 & N81	$37,348	$0	($14,561)	$22,787
Small Interruptible – S71 & S81	($39,573)	$0	($145)	($39,718)
Large Interruptible – N85 & N82	$1,871	$0	$8,445	$10,316
Large Interruptible – S85 & S82	$71,585	($17,531)	$15,548	$69,596
Total Under/(Over) Collection	**($192,225)**	**$0**	**($89,482)**	**($299,238)**

As shown, except for the Firm General S70 and the Large Interruptible classes (both N85 & N82 and S85 & S82), Great Plains over-recovered authorized revenues. All over-recoveries are returned to ratepayers through subsequent RDM adjustments. Under-recoveries are subject to a 10% cap and only the Large Interruptible – S85 & S82 experienced a Cap Adjustment of ($17,531).

The Department verified that, but for the Large Interruptible N85 & N82 rates, the RDM adjustment calculations were accurate. N85 & N82 rates should be recalculated to reflect the Department's recommendation. The Department also verified the rate calculations and tariff sheets in its February 28, 2020 petition and, except for the recalculation of Large IT N85 & N82, concluded they are appropriate and represent Commission Orders. The Department recommended that after adjustment, the Commission approve Great Plains' RDM rates provided in its Evaluation Report.

4. Great Plains' Energy Savings

In introducing the subject, the Department pointed out that the Commission had emphasized the link between the Company's energy savings and its revenue decoupling mechanism in its September 6, 2016 Order in Docket No. G-004/GR-15-789, saying:

> The Commission asks the Department, in Great Plains' next rate case, to propose an appropriate minimum level of energy savings that the utility should achieve before Great Plains could qualify to implement a revenue decoupling surcharge.[18]

[17] DOC Comments, June 1, 2020, page 6.

[18] The ALJ addressed this issue in her report and her recommendation is discussed in the Staff section of these briefing papers.

a. Level of Energy Savings

The Department stated that it presents energy savings both as first year (within the first 12 months) and as lifetime savings (savings expected during the lifetime of the energy conservation measures). DOC stated that Minn. Stat. §216B.241, Subd. 3 says that each pilot decoupling program must be designed to determine whether a rate-decoupling achieves energy savings. However, the Department noted that revenue decoupling is only one public policy that encourages investor-owned utilities conservation savings. Others include:

- Shared Savings Demand-Side Management financial incentive mechanism;
- Minnesota's 1.5% energy-savings goal; and
- Investor-owned utilities' ability to annually true-up CIP expenditures.

As a result, the Department said that whether savings rise, fall, or remain unchanged, savings cannot be solely attributed to revenue decoupling.

The Department pointed out that there have been three full calendar years (2017-2019) since the implementation of Great Plains' Pilot RDM. In reporting its first-year savings (See Figure 2 and Table 3 below), the Company grouped its eight customer classes into the following three customer segments: 1) Residential and Small Commercial, 2) Low Income, and 3) Commercial and Industrial.

Figure 2: Great Plains' First Year CIP Energy Savings (Dekatherms – Dth) by Customer Segment, 2013-2019[19]

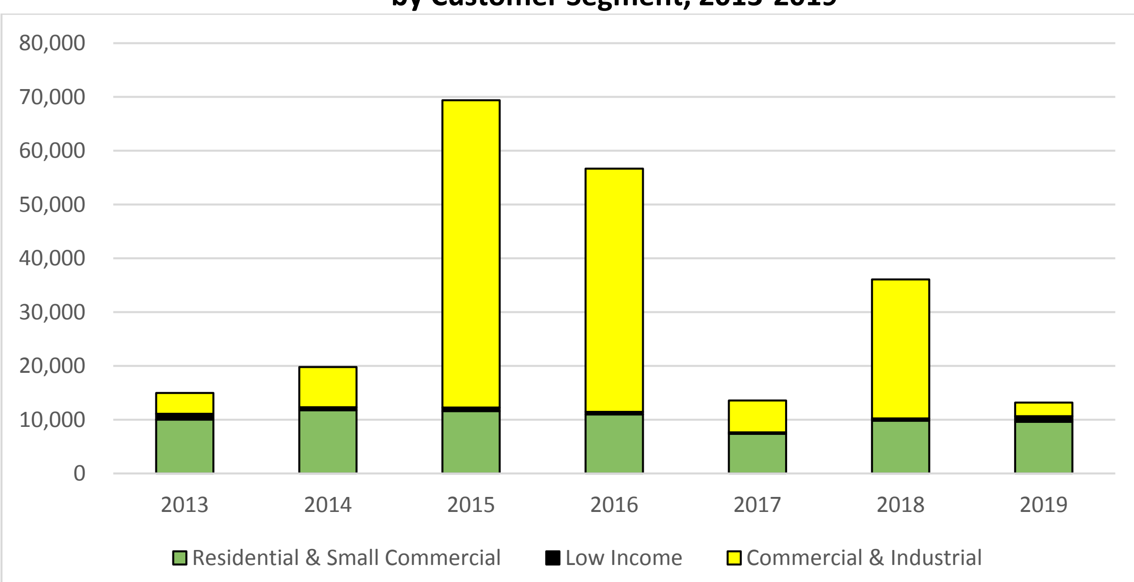


Table 3: Great Plains' First Year CIP Energy Savings (Dekatherms – Dth)

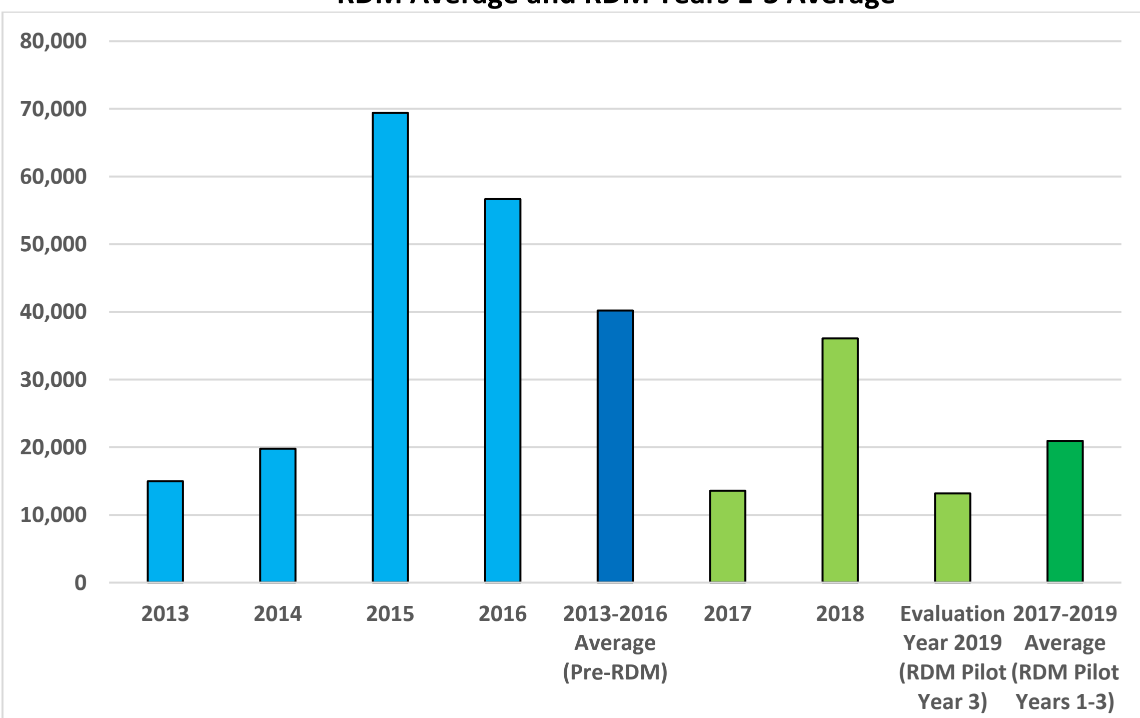
[19] DOC Comments, June 1, 2020, Department Figure 1, page 9.

by Customer Segment, 2013-2019[20]

Year	Residential & Small Commercial	Low Income	Commercial & Industrial	Overall Program
2013	10,010	1,073	3,886	14,969
2014	11,751	561	7,476	19,788
2015	11,610	649	57,134	69,393
2016	10,991	467	45,211	56,669
2017	7,387	250	5,940	13,577
2018	9,817	422	25,844	36,083
2019	9,621	1,027	2,527	13,175

The Department stated that this reporting demonstrated that the low-income segment produced the least amount of first-year savings, while the commercial and industrial segment produced the most variable savings. DOC attributed this variability, in large part, to the presence or absence of custom projects for the commercial and industrial segment.

Figure 3: Great Plains' First-Year CIP Energy Savings (Dth) for 2013-2019, with Pre-RDM Average and RDM Years 1-3 Average[21]



[20] DOC Comments, June 1, 2020, Department Table 2, page 9.

[21] DOC Comments, June 1, 2020, Department Figure 2, page 11.

Table 4: Great Plains' First-Year CIP Energy Savings (Dth) for 2013-2019, with Pre-RDM Average and RDM Years 1-3 Average[22]

Year/Period	Total Savings (Dth)
2013	14,969
2014	19,788
2015	69,393
2016	56,669
2013-2016 Average (Pre-RDM)	**40,205**
2017	13,577
2018	36,083
Evaluation Year 2019 (RDM Pilot Year 3)	13,175
2017-2019 Average (RDM Pilot Years 1-3)	**20,945**

The Department noted that Figure 3 and Table 4, above, show that GP saved an average of 40,205 dekatherms in the four-year pre-RDM period; whereas, the three-year Pilot average is 20,945 dekatherms. DOC also pointed out that, in 2019, the Company saved 13,175 Dth which is equivalent to a 67.2 percent decrease from the Pre-RDM average of 40,205 Dth.

Table 5: Average Annual First-Year Savings by Customer Segment, Pre-RDM, RDM Years 1-3, and RDM Year 3[23]

	Annual First Year Savings (Dth)		
Customer Segment	**2013-2016 Average (Pre-RDM Pilot)**	**2017-2019 Average (RDM Pilot Years 1-3)**	**2019 Evaluation Year (RDM Year 3)**
Residential & Small Commercial	11,091	8,942	9,621
Low Income	688	566	1,027
Commercial & Industrial	28,427	11,437	2,527
Overall Program	**40,205**	**20,945**	**13,175**

Table 5, above, demonstrates that, on average, Great Plains saved more for every customer segment prior to the RDM Pilot than after implementation. DOC pointed out that the low income segment experienced a 49.4 percent increase in savings in RDM Year 3 compared to the Pre-RDM period average. However, the other two segments' savings decreases outweighed the low-income segment's increase resulting in a 2019 savings decline, when compared to the Pre-RDM average.

The Department noted that GP's energy savings performance tends to be significantly dependent on Custom Projects for the Commercial & Industrial customer segment. Table 6, below, shows the impact of custom projects for all years (2013-2019).

[22] DOC Comments, June 1, 2020, Department Figure 2, page 11.

[23] Ibid, Department Table 4, page 12.

Table 6: Savings (Dth) and Impacts (%) of Great Plains' Custom Projects on the Commercial/Industrial Segment and Overall Program[24]

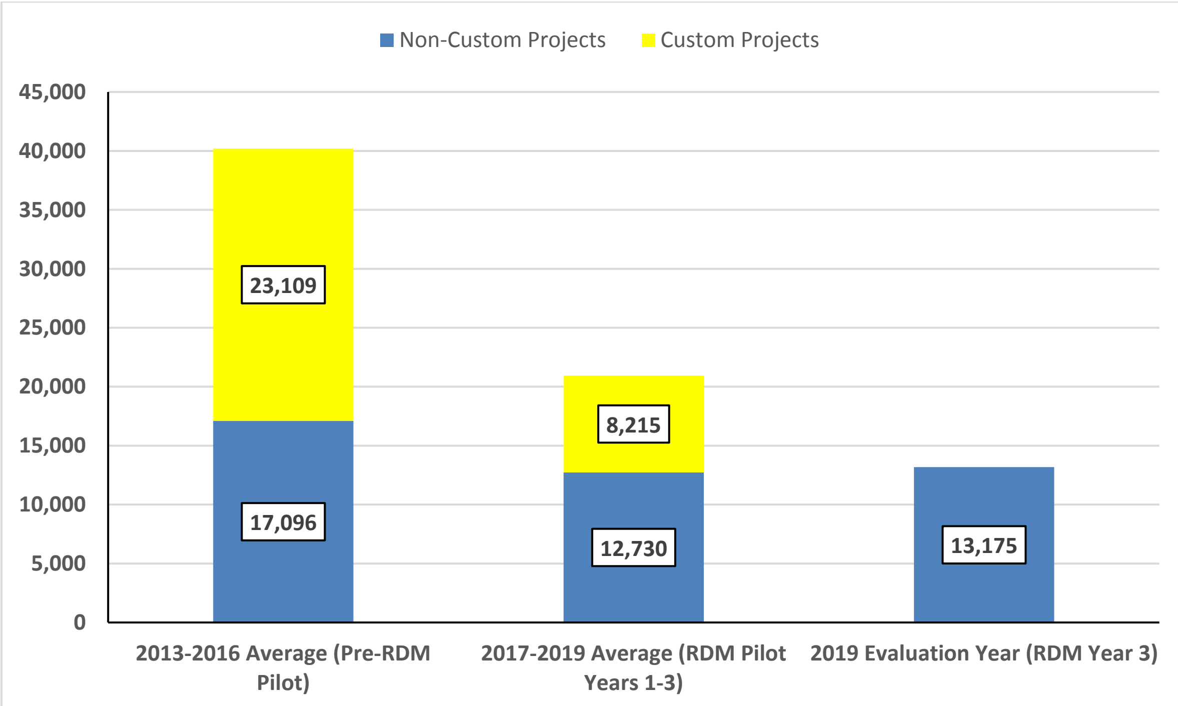
	Overall Program	Commercial & Industrial Total		Custom Projects		Commercial and Industrial without Custom Projects	
Year	Savings (Dth)	Savings (Dth)	Percentage of Overall Program Savings (%)	Savings (Dth)	Percentage of Overall Program Savings (%)	Savings (Dth)	Percentage of Overall Program Savings (%)
2013	14,969	3,886	26%	181	1%	3,705	25%
2014	19,788	7,476	38%	-	-	7,476	38%
2015	69,393	57,134	82%	51,068	74%	6,066	9%
2016	56,669	45,211	80%	41,187	73%	4,024	7%
2017	13,577	5,940	44%	-	-	5,940	44%
2018	36,083	25,844	72%	24,646	68%	1,198	3%
2019	13,175	2,527	19%	-	-	2,527	19%
Average 2013-2019	**31,951**	**21,145**	**51%**	**29,271**	**54%**	**4,419**	**21%**

The Department observed that, while custom projects do not occur each year, on average they account for 54 percent of the Company's total energy savings across all programs. As a result, Commercial & Industrial savings account for an average of 51% of total savings when custom projects occur, and an average of 21 percent when they do not. Custom projects, when present, result in greater variability in savings.

The Department said that Figure 4, below, shows that when custom projects are removed from the analyses, the decreases in energy savings are "much less pronounced when comparing Pre-RDM savings to RDM Years 1-3 savings, even though there are still decreases.

[24] Ibid, Department Table 5, page 13.

Figure 4: Great Plains' Average Annual First-Year Savings (Dth) due to Custom Projects and Non-Custom Projects, Pre-RDM, RDM Years 1-3, and RDM Year 3[25]

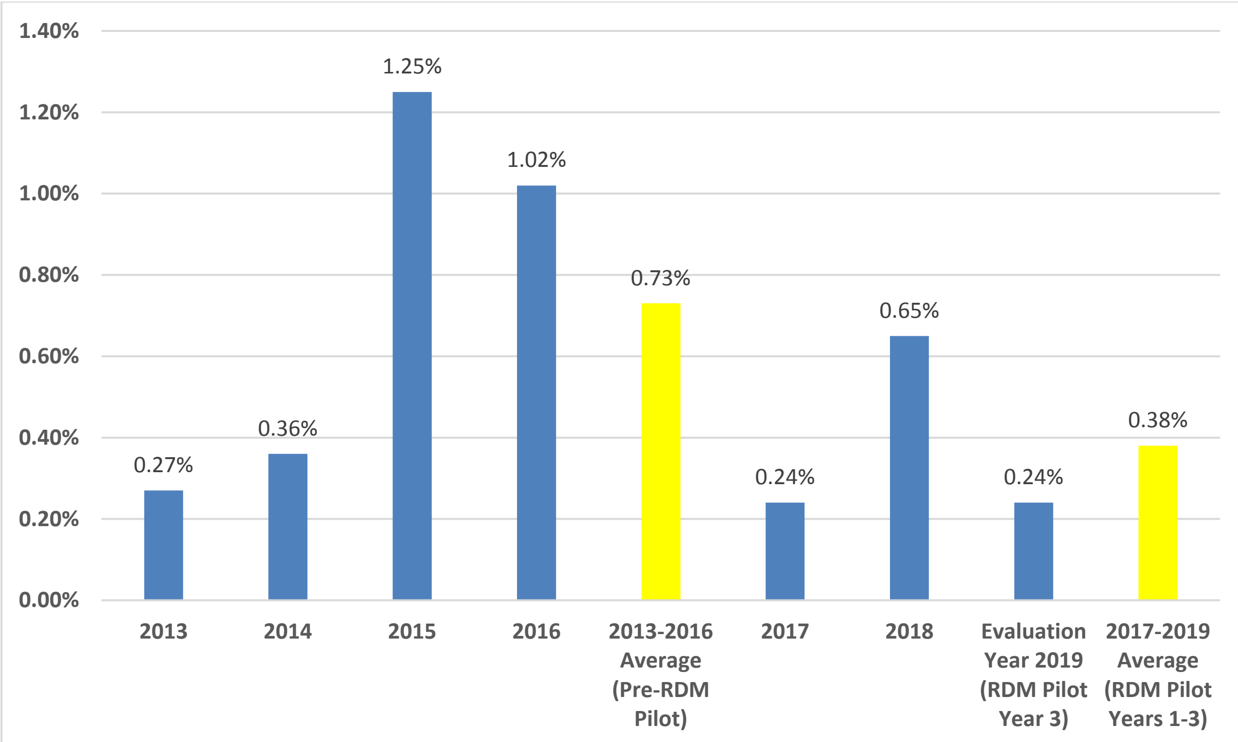


When custom projects are removed, Great Plains saved 22.9 percent less in Evaluation Year 2019 than the pre-RDM average. When custom projects are included, GP save 67.2 percent less in 2019 than in the pre-RDM average.

Further, DOC said that, at no point since 2013, either before or after the implementation of the RDM Pilot, has Great Plains reached the 1.5 percent of retail sales goal included in the CIP Statute. Figure 5, below, shows Great Plains' CIP energy savings as a percent of weather-normalized retail sales for years 2013-2019.

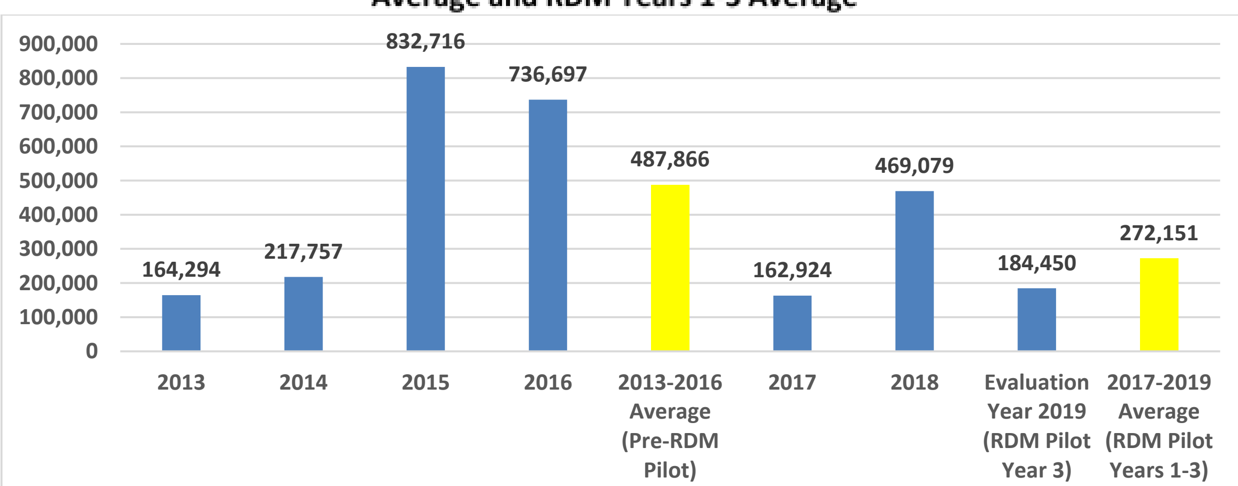
[25] Ibid, Department Figure 4, page 14.

Figure 5: Great Plains' First-Year CIP Energy Savings as a Percentage of Weather Normalized Sales (%), 2013-2019, with Pre-RDM Average and RDM Years 1-3 Average[26]



Great Plains reported its lifetime energy savings and Figure 6, below, shows their data for each year between 2016 and 2019, including averages for both Pre-RDM savings and RDM Years 1-3 savings.

Figure 6: Great Plains' Lifetime Energy Savings (Dth), 2013-2019, with Pre-RDM Average and RDM Years 1-3 Average[27]



[26] Ibid, Department Figure 5, page 15.

[27] Ibid, Department Figure 6. page 17.

The Department noted that the increased lifetime savings in 2015 and 2016, and the rebound in savings in 2018, are probably related to increases in custom project savings in those three years. Although the Company did not provide information on lifetime savings with the custom projects removed, the Department believed that such an assumption is a reasonable.

The Department stated that it continues to be troubled by the lack of improvement in Great Plains' first year energy savings since the RDM pilot's implementation. The Company cited low natural gas prices as one of the biggest factors impacting its customers demand for energy savings projects. The Department responded by noting that, although low gas prices affect all customer segments, each customer segment is experiencing different energy savings trends. Commercial & Industrial has been most heavily impacted (a 59.8 percent decrease from Pre-RDM to RDM pilot); Residential & Small Commercial had a lesser impact (a 19.4 percent decrease); and the Low Income segment experience the lowest impact (17.6 percent).

The Department said that it is aware that decoupling does not directly lead to energy conservation, but that the Department expects, all else being equal, an increase or continued maintenance of energy savings levels when an RDM is implemented. Thus, a decrease in energy savings, even when custom projects are removed for comparison purposes, "calls into question whether extension of the pilot or a permanent decoupling adjustment is prudent"[28]. The Department will continue to assess the level of energy savings in the future.

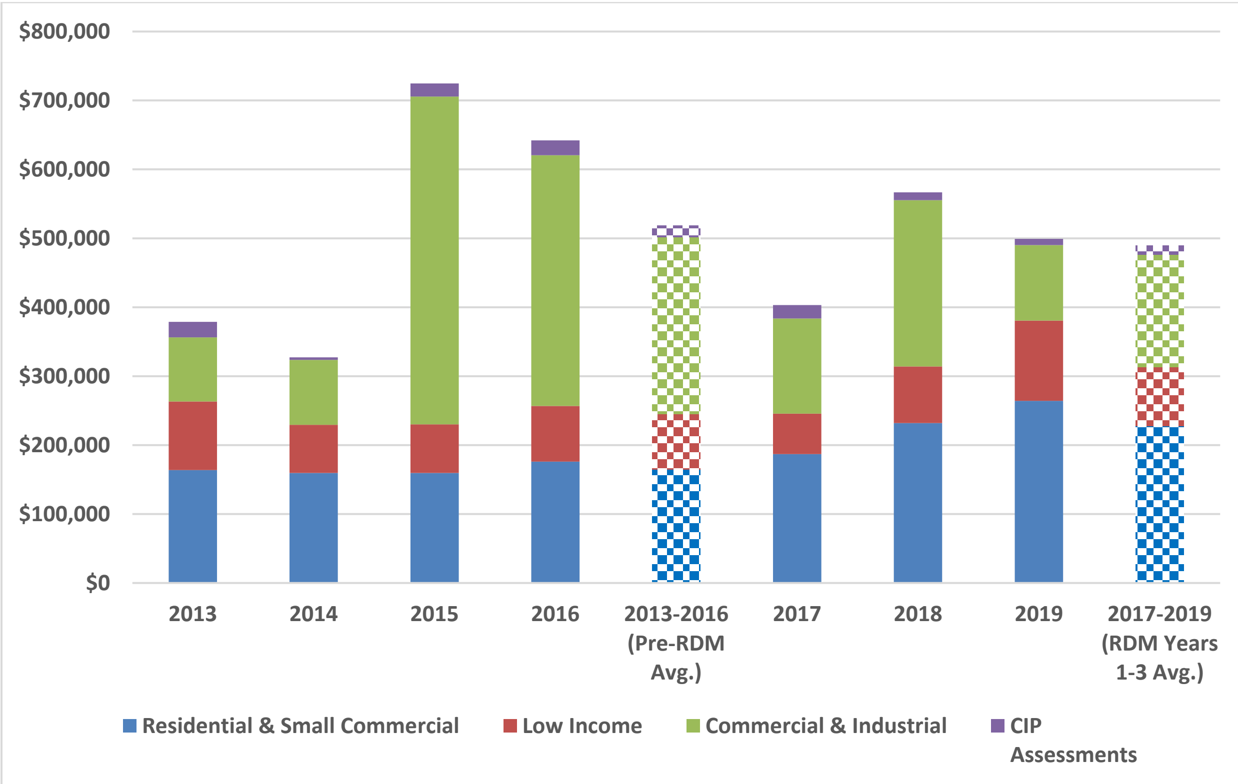
b. Energy Savings Expenditures

Overall, the Department stated that Great Plains spent an average of $518,000 per year in the Pre-RDM period, $489,683 per year in the 3 years of the pilot, and $499,310 in 2019, which is 3.7 percent lower than the Pre-RDM average.

Great Plains also presented CIP expenditure data by customer segment and Next Generation Energy Act Assessments (CIP Assessments), shown in Figure 7, below.

[28] Ibid, page 19.

Figure 7: Great Plains' Annual CIP Expenditures by Customer Segment, With Assessments ($), 2013-2019[29]

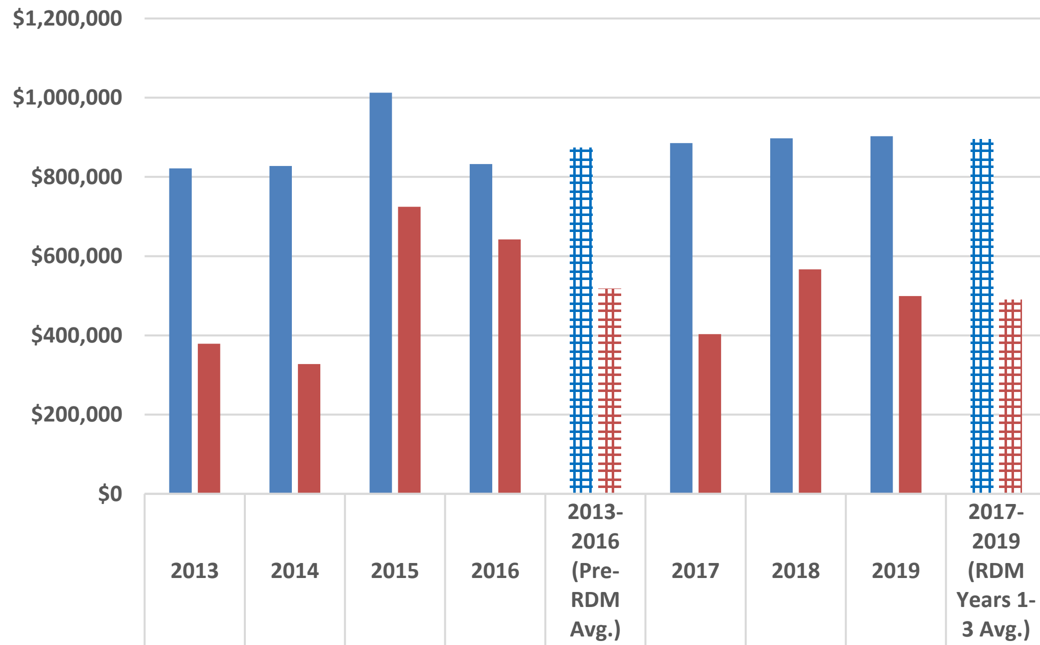


Based on this data, the Department observed that GP's CIP spending tends to follow the same trends as its energy savings: the Company tends to spend the least (after assessments) on the low income segment, and the spending for the commercial and industrial segment tends to be the most variable (likely due to presence or absence of custom projects).

Great Plains also provided data on budgeted versus authorized CIP expenditures, as shown in Figure 8, below.

[29] Ibid, Derived from Department Figures 8 and 9, pages 21 and 22.

Figure 8: Great Plains' Budgeted vs. Actual CIP Expenditures, 2013-2019[30]



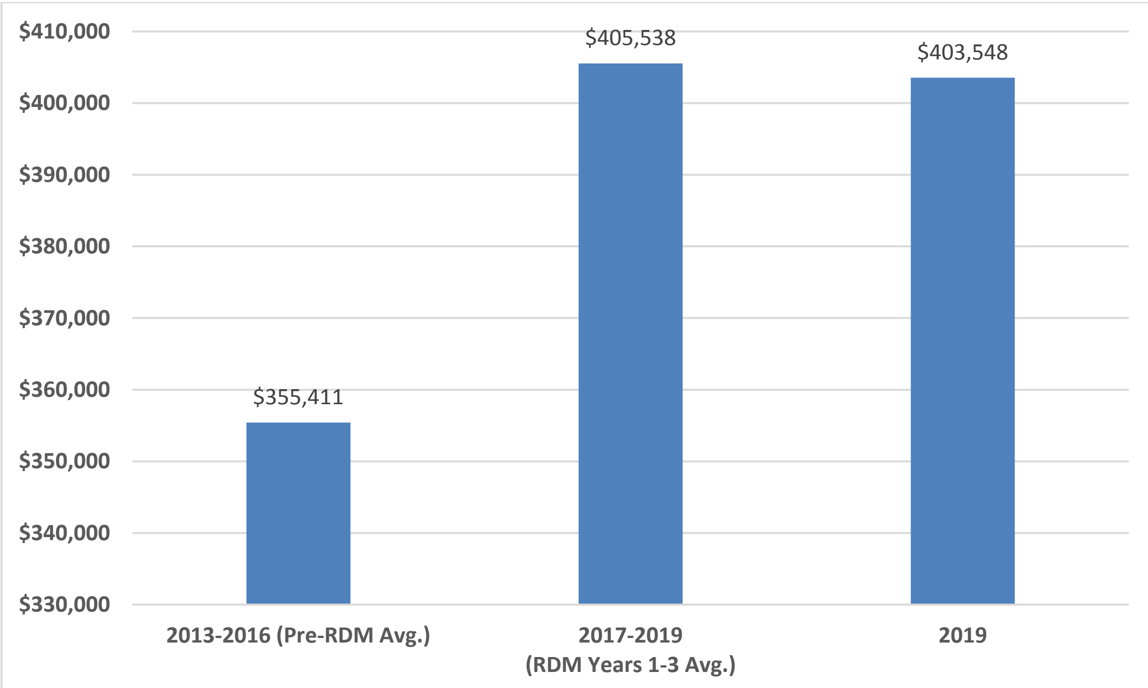
	2013	2014	2015	2016	2013-2016 (Pre-RDM Avg.)	2017	2018	2019	2017-2019 (RDM Years 1-3 Avg.)
Approved Budget	$821,691	$827,718	$1,012,59	$832,597	$873,651	$885,396	$897,408	$902,858	$895,221
Actual CIP Expenditures	$378,793	$327,380	$724,644	$642,143	$518,240	$403,118	$566,621	$499,310	$489,683

The Department asserted that this data shows that GP has consistently fallen short of its budgeted expenditures; in fact, at no point has the Company met or exceed its CIP budget.

Figure 9, below, shows a comparison between the average budget shortfalls for the Pre-RDM period average, the average for the 3-year pilot period, and the 2019 Evaluation Year.

[30] Ibid, Derived from Department Figures 10 and Table 11, page 24.

Figure 9: Average Difference between Great Plains' Approved and Actual CIP Expenditures ($), Pre-RDM, RDM Years 1-3, and RDM Year 3[31]



The Department said that this data shows that Great Plains has been spending even less than its approved budget during the RDM pilot than before the implementation of the RDM. In the 2019 Evaluation Year, the Company spent $403,548 less than its approved budget, which is 13.5 percent less than its average Pre-RDM budget shortfall.

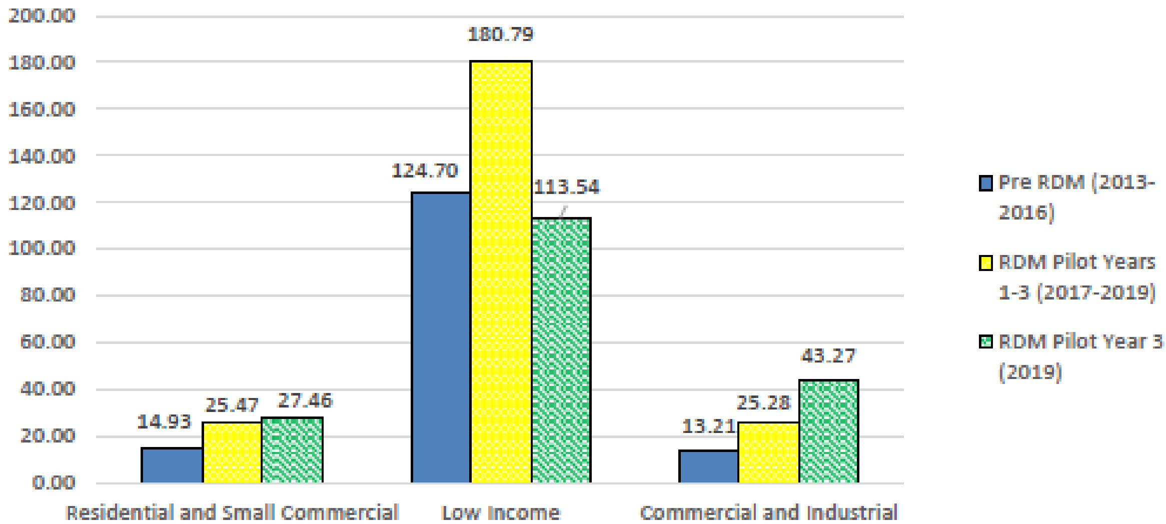
c. Changes in Cost per Dekatherm Saved

The Department said that Figure 14 below:

> shows that the low income segment typically is the least cost-effective which, as low income savings increase, would pull the total program saving cost up, as they did in 2019.
>
> Additionally, in Evaluation Year 2019:
>
> - The residential and small commercial segment had a savings cost that was 83.9 percent higher than its Pre-RDM average ($27.46/Dth in 2019 vs. $14.93/Dth Pre-RDM);
> - The low income segment had a savings cost that was 8.9 percent lower than its Pre-RDM average ($113.40/Dth in 2019 vs. $124.70/Dth Pre-RDM);
> - The commercial and industrial segment had a savings cost that was 227.6 percent higher than its Pre-RDM average ($43.27/Dth in 2019 vs. $13.21/Dth Pre-RDM).

[31] Ibid, Department Figure 11, page 25.

Figure 10: Great Plains' Savings Cost ($/Dth) by Customer Segment, Pre-RDM (2013-2016), RDM Pilot Years 1-3, and 2019 Evaluation Year[32]



The Department stated that these trends indicated that the higher savings cost in 2019 is likely influenced by the growth in savings costs of both the residential/small commercial and commercial/industrial segments.

5. History of Revenue Collection and Use per Customer

Table 7, below, shows Great Plains' under (over) recovery for 2019 (Year 3) of its RDM Evaluation Report.[33]

Table 7: Revenue Collection and Use per Customer (1 of 2)

Customer Class	Actual Customer Count	Authorized Customer Count	Actual Revenues	Designed Revenues	Actual Rev/ Customer	Authorized Rev/ Customer
Residential - N60	8,617	8,499	$1,986,150	$1,899,359	$230.49	$220.42
Residential – S60	10,349	10,337	$2,281,073	$2,169,875	$220.41	$209.67
Firm General – N70	1,276	1,271	$1,097,517	$1,052,930	$860.12	$825.18
Firm General – S70	1,758	1,732	$1,542,499	$1,521,619	$877.42	$865.54

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[32] Ibid, Department Figure 14, page 28.

[33] Ibid, Department Table 12, page 30.

Customer Class	Actual Customer Count	Authorized Customer Count	Actual Revenues	Designed Revenues	Actual Rev/ Customer	Authorized Rev/ Customer
Small IT – N71 & N81	61	72	$499,351	$536,699	$8,186.08	$7,454.15
Small IT – S71 & S81	64	72	$580,797	$541,224	$9,074.95	$7,517.00
Large IT – N85 & N82	8	6	$254,964	$256,835	$31,870.50	$32,104.33
Large IT – S85 & S82	7	7	$468,953	$540,538	$66,993.29	$77,219.71

*Balance as of March 1, 2020.

Table 7: Revenue Collection and Use per Customer (2 of 2)

Customer Class	Non-Gas Margin Cap	Calendar Year 2018 Net Under(Over)		10% Cap	Decoupling Revenue	Under/(Over) Prior Pd. Adj.*	Net Balance
Residential - N60	$1,899,359	($86,791)	(4.57)%	N/A	($86,791)	($60,290)	($147,081)
Residential – S60	$2,169,875	($111,198)	(5.12)%	N/A	($111,198)	($53,713)	($164,911)
Firm General – N70	$1,052,930	($44,587)	(4.23)%	N/A	($44,587)	($12,790)	($57,377)
Firm General – S70	$1,521,619	($20,880)	(1.37)%	N/A	($20,880)	$28,030	$7,150
Small IT – N71 & N81	$536,699	$37,348	6.96%	$53,669	$37,348	($14,561)	$22,787
Small IT – S71 & S81	$541,224	($39,573)	(7.31%(	N/A	($39,573)	($145)	($39,718)
Large IT – N85 & N82	$256,835	$1,871	0.73%	$25,683	$1,871	$8,445	$10,316
Large IT – S85 & S82	$540,538	$71,585	13.24%	$54,054	$71,585	$15,542	$69,596

*Balance as of March 1, 2020.

The Department observed that in 2019 GP over-recovered its RDM for the following rate classes:

- Residential N60 and S60;
- Firm General N70 and S70, and
- Small Interruptible S71 and S81.

The over-recoveries will be returned to ratepayers through future RDM adjustments.

Great Plains under-recovered the following rate classes:

- Small Interruptible N&! and S81;
- Large Interruptible N85 and N82, and
- Large Interruptible S85 and S82.

The Department noted that under-recoveries were below the 10 percent cap for all but the Large Interruptible S85 and S82 rate class.

The RDM factors and decoupling revenues that the Company proposed to recover from its ratepayers are shown in Table 8 below.

Table 8: Per-Therm Surcharges or (Refunds) by Rate Class[34]

Customer Class	RDM Factor	Decoupling Revenue
Residential – N60	$ (0.2038)	($147,081)
Residential – S60	$ (0.2047)	($164,911)
Firm General – N70	$ (0.1244)	($57,377)
Firm General – S70	$ 0.0090	$7,150
Small IT – North	$ 0.0795	$22,787
Small IT – South	$ (0.1182)	($39,718)
Large IT – North	$ 0.0360	$10,316
Large IT – South	$ 0.0788	$69,596
Total Net Decoupling Revenue		**($299,238)**

The Department noted that the figures shown in Table 8, above, include recovery from the current decoupling period and prior period collections. DOC reviewed the figures and concluded that the calculations and resulting RDM factors are reasonable, except for the Large IT – North rates. Great Plains will need to adjust the Large IT – North rate to reflect the Department's recommendation to use flex revenues for the new customer in its calculation.

Table 9, below, presents the monthly average surcharge or (refund) expected for customer classes from information provided by Great Plains Section C of its updated Decoupling Evaluation Report.[35]

[34] Ibid, Department Table 13, page 31.

[35] Great Plains Revenue Decoupling Mechanism Rates and Decoupling Evaluation Report for Year 3 of Pilot Program, February 28, 2020, Section C, page 14.

Table 9: Monthly Average Surcharge or (Refund) for an Average Customer by Class[36]

Customer Class	Decoupling Adjustment	Average Monthly Use in Dth	Average Monthly Cost or (Refund)
Residential – N60	$ (0.2038)	7.0	($1.43)
Residential – S60	$ (0.2047)	6.5	($1.33)
Firm General – N70	$ (0.1244)	30.2	($3.76)
Firm General – S70	$ 0.0090	37.5	$0.34
Small IT – North	$ 0.0795	367.6	$29.22
Small IT – South	$ (0.1182)	400.1	($47.29)
Large IT – North	$ 0.0360	3,413.1	$122.87
Large IT – South	$ 0.0788	12,266.3	$966.58

6. Department Conclusions and Recommendations

Based on its review, the Department concluded that Great Plains complied with the ordering points in the Commission's February 7 Order and August 23 Order. However, the Department noted that GP should recalculate the Large Interruptible North rates, using the new N82 customer's revenues approved in the rate case as that customer's Designed Revenues.

The Department recommended that the Commission:

- approve the RDM factors presented in Great Plains' February 28, 2020 filing and reproduced in Table 8 above, once the Large Interruptible North rates have been recalculated to reflect the Department's recommendation;

- approve the proposed tariff changes as presented in Great Plains' February 28, 2020 filing, once the Large Interruptible North rates have been recalculated to reflect the Department's recommendation; and

- allow Great Plains to continue its RDM Pilot for calendar year 2020.

C. Great Plains Reply Comments

On June 10, 2020, Great Plains submitted its reply to the Department's comments. The Company stated that it disagreed with the Department's recommended modification to Great Plains' Large Interruptible North rates.

As previously discussed, the Company stated:

> [A] Large Interruptible Transportation Rate N82 customer moved its service from under the customer's contract rate to the distribution rate applicable under Rate N82 as the customer's contract rate exceeded the Rate N82 distribution rate

[36] DOC Comments, June 1, 2020, Department Table 14, p. 32.

> applicable under the tariff effective January 1, 2019 for Phase 3 rates in Docket No. G004-GR-15-879.

In order to accurately account for this movement, the Company included the former flex customer's volumes priced at the Rate N82 distribution charge for both the authorized or designed revenues and actual revenues for 2019.

Great Plains further stated that:

> The Department's modification, while consistent with the Company's previous treatment of a Large Interruptible Transportation Rate S82 customer moving its service under a flexible contract in the Company's Year 2 RDM Evaluation Report, does not recognize that the rate the Department is recommending (in the determination of Authorized/Designed Revenues) exceeds the distribution rate provided for under the tariff.
>
> The table below is a comparison of the Company's Rate N82 balances as included in the Company's February 28, 2020 filing in this docket and the revised balances reflecting the Department's modification.

	As Filed	Department's Recommendation
Decoupling Adjustment	$1,871	$17,196
Prior Period Adjustment	$8,445	$8,445
Net Balance	$10,316	$25,641

Regarding the Department's concerns about the Company's commitment to energy conservation, Great Plains stated that it is committed to achieving its CIP goals by continuing to encourage customer participation in the Company's CIP rebate programs and promoting customer investments in energy savings measures. However, since January 2015, commodity prices in the agricultural market have declined significantly and the Company believes that economic factors throughout its service territory, combined with the low cost of natural gas, are presenting customers with greater challenges in investing in energy efficiency programs.

Great Plains noted that its service territory has very limited new construction growth, which limits the Company's opportunities to influence customer decisions to invest in energy efficiency measures in customer's initial building phase. Because of this, GP relies mainly on the retrofit market for CIP program participation. The Company continues to see the importance of large custom projects to enable it to reach its CIP program goals.

VI. Staff Comments

Staff agrees with the Department's argument regarding consistent treatment of customers migrating from a flexible rate contract to an RDM class (or vice versa). The Department concluded that the most reasonable approach, in the current docket, would be to accept Great Plains' correction methodology for the 2019 customer migrating from flexible rates to RDM (i.e.

add the customer count and revenues to the RDM class). Great Plains says that it supports this approach because "the customer's authorized volumes exceed those of the average of the class and would thus result in the Company needlessly forfeiting authorized margin."

The only problem with this approach is that it is inconsistent with the approach taken with the 2018 customer that left the RDM class for a flexible rate contract. Therefore, the Department suggested as an alternative:

> that GP treat both customers that switched services as if they had not done so, as Great Plains proposes to do in this case. This approach allows Great Plains to continue to collect the same amount of revenues as set in the prior rate case

The Department pointed out that this would require the Commission to change the decision made in Docket No. G-004/M-19-198,[37] so that the revenues from the customer that switched from Large IT-South 82 to flexible rates would continue to be included in the decoupling adjustment as if the customer had not made such a switch.

Staff agrees with the Department when it said that "[e]ither approach is supportable, but using contradictory approaches is not".

Staff notes that Great Plains, in its reply comments, stated that using the Departments recommendation would result in an N82 decoupling adjustment increase of $15,325. Staff interprets the GP number as an increase in the surcharge. Commissioners may want to ask GP if this is the correct interpretation.

Staff further notes that, if the Commission adopts the Department's recommendation to adjust the N82 calculation, it is likely that such changes would not be reflected in customer's bills until February. This means that adoption of the DOC's adjustment should be reflected in customers' February and March bills.[38]

Regarding the ALJ's recommendation on decoupling, Staff notes that in her *Order – Findings of Fact, Conclusion of Law, and Recommendations*, June 30, 2020, in Docket No. G-004/GR-19-511, the ALJ said:

> With respect to GP's Revenue Decoupling Mechanism (RDM), the Administrative Law Judge recommends that the Commission allow the RDM to continue through 2021. After reviewing the Company's 2019 and 2020 CIP results, the Commission should decide whether to allow the RDM to continue. The Judge further 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; and (3) require that the revenue sharing

[37] In the Matter of the Petition of Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Approval of its Revenue Decoupling Mechanism Rates and Decoupling Evaluation Report for Year 2 of its Pilot Program, Order, p. 3, footnote 5 (August 23, 2019)

[38] Great Plains' annual RDM adjustments are reflected during April-March 12-month period.

mechanism be reviewed in the Company's next rate case or within five years from the Commission's order, whichever occurs first.

The Judge recommends that a minimum savings threshold not be imposed at this time.

VII. Decision Alternatives

RDM Factors

1. Approve the revenue decoupling mechanism (RDM) factors as presented in Great Plains' February 28, 2020 updated filing and shown in Table 8 above. (*GP*)

OR

2. Approve the RDM factors as modified. (*DOC*)

RDM Factor Modifications

If Alternative 1 is approved, then:

3. Modify the Commission's decision in Docket No. G-004/M-19-198[39] to require GP to recalculate its 2018 RDM factor to account for a Large Interruptible South 82 Rate customer that transitioned to a flexible rate contract in a consistent manner to its treatment of the N82 Rate customer that transitioned from a flexible rate contract in this docket. (*DOC secondary alternative*)

OR

If Alternative 2 is approved, then:

4. Require Great Plains to recalculate the Large Interruptible North Rates, using the new N82 customer's revenues approved in the rate case as that customer's Designed Revenues, consistent with the calculation method used by GP in Docket No. G-004/M-19-198.[40] (*DOC primary alternative*)

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[39] In the Matter of the Petition of Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Approval of its Revenue Decoupling Mechanism Rates and Decoupling Evaluation Report for Year 2 of its Pilot Program, Order, p. 3, footnote 5. (August 23, 2019)
[40] Ibid.

RDM Factor Compliance Filing

If Alternative 2 is approved, then:

5. Require Great Plains to submit a compliance filing, within 15 days of the order issuance, confirming the adjusted RDM factors.

Proposed Tariff Changes

If Alternative 1 is approved, then:

6. Approve the proposed tariff changes as presented in Great Plains' February 28, 2020 filing and included in GPs petition in Attachment A. (*GP*)

OR

If Alternative 2 is approved, then:

7. Require Great Plains to file its modified proposed tariff changes in a compliance filing within 10 days of the Commission's order date. (*DOC, Staff*)

Future RDM Annual Reports

8. For future RDM annual reports, continue to require Great Plains to continue to file annual revenue decoupling calculation by March 1 and file the full evaluation report by May 1.