



Staff Briefing Papers

Volume I, Introduction & General Housekeeping, Errata

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|---------------|--|-----------------|
| Meeting Dates | 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 Nos. | 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

G-004/MR-19-512

In the Matter of the Application of Great Plains Natural Gas Co. (Great Plains), a Division of Montana-Dakota Utilities Co., to Establish a New Base Cost of Gas and Reset the Purchased Gas Adjustment to Zero, to Coincide with the Implementation of Interim Rates in its General Rate Case Filing, in Docket No. G-004/GR-19-511

| | | | |
|--------|--|--|--------------|
| Issues | <ol style="list-style-type: none">1. Should the Commission adopt all the recommendations in the ALJ's Report? If not, what level of revenue is appropriate for Great Plains' test year?2. Should the Commission approve the updated Base Cost of Gas? | | |
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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

| | | |
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✓ **Relevant Documents**

Date

Post-Hearing Summary of Disputed and Resolved Issues

Department of Commerce – Joint Issues Matrix March 30, 2020

Initial Briefs

| | |
|---|----------------|
| Great Plains Natural Gas Co. (Great Plains) | April 10, 2020 |
| Department of Commerce (Department) | April 10, 2020 |
| Office of Attorney General-Antitrust & Utilities Division (OAG) | April 10, 2020 |

Joint Proposed Findings of Fact and Conclusions of Law – Undisputed Issues

Great Plains, Department and OAG April 15, 2020

Reply Briefs

| | |
|--------------|----------------|
| Great Plains | April 24, 2020 |
| Department | April 24, 2020 |
| OAG | April 24, 2020 |

Proposed Findings of Fact and Conclusions of Law – Disputed Issues

| | |
|--------------|----------------|
| Great Plains | April 24, 2020 |
| Department | April 24, 2020 |
| OAG | April 24, 2020 |

✓ **Relevant Documents**

Date

ALJ Report

| | |
|---|----------------|
| Findings of Fact, Conclusions of Law and Recommendation | June 30, 2020 |
| Master Exhibit List | March 31, 2020 |
| Great Plains - Schedules Reflecting ALJ Recommendation | July 8, 2020 |
| Department - Comments on Great Plains' Schedules | July 16, 2020 |

Exceptions to the ALJ Report

| | |
|--------------|---------------|
| Great Plains | July 13, 2020 |
| Department | July 13, 2020 |
| OAG | July 13, 2020 |

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I. Statement of the Issues

- Should the Commission adopt all the recommendations in the ALJ's Report? If not, what level of revenue is appropriate for Great Plains' test year?
- Should the Commission approve the updated Base Cost of Gas?

II. Introduction

On September 27, 2019, Great Plains Natural Gas Co. (Great Plains, GP or the Company), a Division of Montana-Dakota Utilities Co., filed a general rate case requesting a net increase of approximately \$2.86 million, or 12.0%.

On September 23, 2013, the Commission ordered an interim rate increase, subject to refund, of \$2.6 million, or 10.98%, that went into effect as of January 1, 2020. On the same date, the Commission issued its Notice and Order for Hearing (NOH), setting the matter for contested case hearing. In its NOH, the Commission indicated that it "expects the parties will thoroughly develop a full record, addressing, at a minimum, the following issues:

- a. The standard rate case issues;¹
- b. Great Plains' request to continue its Revenue Decoupling Mechanism (RDM) on a permanent basis:
 - 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?
- c. the impact of suspending the Gas Utility Infrastructure Cost (GUIC)rider and if the Company intends to continue use of the GUIC subsequent to the rate case;
- d. the Company's redemption of preferred stock;
- e. the accuracy of the sales forecast; and
- f. Great Plains' proposed change to the Conservation Cost Recovery Adjustment (CCRA) Factor from the currently approved CCRA Factor amount of (.0337) to (.0599) in this general rate case rather than a Conservation Improvement Program Tracker/DSM financial incentive docket."

Administrative Law Judge (ALJ) Ann O'Reilly of the Minnesota Office of Administrative Hearings was assigned to conduct the case.

¹ The standard rate case issues are: 1) is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) is the rate design proposed by the Company reasonable? 3) are the Company's proposed capital structure and return on equity reasonable? See *In the Matter of the Application of Minnegasco, a Division of NorAm Energy Company, for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-95-700, Notice and Order for Hearing, p. 3. (October 4, 1995).

The active parties in this case are:

- Great Plains Natural Gas Co.,
- Minnesota Department of Commerce (Department or DOC), and
- Minnesota Office of Attorney General – Antitrust and Utilities Division (OAG).

All involved parties submitted pre-filed testimony, participated in the evidentiary hearings and submitted briefs to the ALJ.

Public hearings were held in Marshall and Fergus Falls, Minnesota, on February 24, 2020. One member of the public attended the Marshall hearings. He opined that the requested increase was excessive and expressed concerns regarding the impact to residential ratepayers, particularly those on fixed income. No member of the public attended the Fergus Falls hearings. Also, no public written comments were submitted.

Staff briefing papers have been prepared in separate volumes, as follows:

- Introduction and General Housekeeping - Volume I (Commission staff: Jorge Alonso)
- Financial Matters - Volume II (Commission staff: Sundra Bender)
- Cost of Capital - Volume III (Commission staff: Robert Manning)
- Sales Forecast & Class Cost of Service Study - Volume IV (Commission staff: Ganesh Krishnan)
- Rate Design - Volume V (Commission staff: Kevin O’Grady and Sally-Anne McShane)

III. Background

On June 30, 2020, Judge Ann O’Reilly issued her Findings of Fact, Conclusions of Law and Recommendation (ALJ Report).² The Commission Notice issued July 2, 2020 set exception filing dates, requested the Company to file financial schedules reflecting the ALJ Report and permitted parties to comment on these schedules.

On July 8, 2020, Great Plains filed schedules reflecting the ALJ’s recommendations. According to Great Plains, the ALJ Recommendations would result in a revenue increase of \$2,681,196.³ GP’s filing also included an update to the Company’s proposed base cost of gas.

On July 13, 2020, Great Plains, the Department of Commerce, and the OAG filed comments taking exception and requesting clarification to some aspects of the ALJ’s Report.

² For reference purposes, the Master Exhibit List identifies all of the items in the record by exhibit number, as indicated in the ALJ Report.

³ Great Plains Compliance Filing, Exhibit 1.

On July 16, 2020, the Department filed comments indicating that, after reviewing Great Plains' compliance filing, it concluded that Great Plains' schedules accurately reflect the ALJ's recommendations.

The main issue before the Commission at this meeting is whether to adopt the ALJ's Report, including her recommendations regarding the disputed issues in the following tables. The issues listed in the following tables are not necessarily listed in order of importance.

| ALJ Report Financial Issues & ALJ Recommendation | Exceptions to ALJ's Recommendation | | |
|--|--|---|-----------------------------------|
| | GP | DOC | OAG |
| Return on Equity Capital (ROE) | | | |
| ROE – 9.67% (9.72% with flotation costs) | Did not object but contends that, had the DOC properly comprised its proxy group, a higher ROE would be warranted, including the requested 10.20%. | Objects – recommends 8.77%. (8.82% with flotation costs) | |
| Incentive Compensation | | | |
| Amount not in dispute. In dispute is the recommendation that the Commission require Great Plains to file an annual report identifying the actual incentive compensation amount paid out so that the Commission can then determine whether a ratepayers' refund is due. | Objects – does not believe paid incentive compensation should be tracked. | | |
| Customer Charges | | | |
| ALJ recommended increases to monthly customer charges - \$1.50 to residential and \$4.50 to small business customers. | | | Objects – recommends no increase. |

All non-disputed and resolved issues are discussed in the briefing papers as well.

If the Commission does not accept the ALJ's Report (and recommendations) in its entirety, then, based on Commission modifications to the Report, the Commission will need to decide the Company's appropriate test year revenue level and how that revenue should be collected from customers.

A. Staff Comments

If the Commission agrees with all the findings contained in the ALJ Report, then the Commission may adopt one of the following alternatives:

- Adopt the ALJ's Report in its entirety.
- Adopt the ALJ's Report in its entirety with the minor corrections/clarifications discussed in these briefing papers.

If the Commission finds differently than the ALJ on any issue, then the Commission may want to adopt the ALJ Report with modification to one or more of the issues.

B. Decision Alternatives

1. Accept and adopt the ALJ's Findings of Fact, Conclusions of Law and Recommendations in its entirety.
2. Accept and adopt the ALJ's Findings of Fact, Conclusions of Law and Recommendations and include minor corrections/clarifications discussed in these briefing papers.
3. Accept and adopt the ALJ's Findings of Fact, Conclusions of Law and Recommendations with modification to one or more of the issues.

IV. General Housekeeping and Compliance Issues

A. Staff Comments

All of the compliance filing requirements in the decision alternatives are standard rate case compliance items. These requirements ensure that Great Plains files various financial and rate design schedules that reflect the Commission's decision, revised tariff sheets, a draft customer notice, a new base cost of gas, and an interim rate refund plan.

Staff also recommends the Commission include a set of financial summaries for Great Plains in its order in this docket that includes: a schedule showing the calculation of Great Plains' authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of total allowed revenues.

B. Decision Alternatives

901. State that the final order in this docket shall contain summary financial schedules including: a calculation of Great Plains' authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Direct parties to work with Commission staff to prepare such schedules for inclusion in the Order, should modifications be necessary to reflect the Commission's final decision.
902. Require Great Plains to make the following compliance filings within 30 days of the date of the final order in this docket:

- a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:
 - i. Breakdown of Total Operating Revenues by type;
 - ii. Schedules showing all billing determinants for the retail sales (and sale for resale) of natural gas. These schedules shall include but not be limited to:
 1. Total revenue by customer class;
 2. Total number of customers, the customer charge and total customer charge revenue by customer class; and
 3. For each customer class, the total number of commodity and demand related billing units, the per unit of commodity and demand cost of gas, the non-gas margin, and the total commodity and demand related sales revenues.
 - iii. Revised tariff sheets incorporating authorized rate design decisions;
 - iv. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.
 - b. A revised base cost of gas, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.
 - c. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
 - d. Direct Great Plains to file a computation of the CCRC based upon the decisions made herein for inclusion in the final Order. Direct Great Plains to file a schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective
 - e. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest to affected customers.
903. Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on Great Plains' proposed customer notice.
904. Move that the written order memorializing these decisions may rearrange, reorganize, or renumber the items included as necessary for clarity; standardize or correct abbreviations, phraseology, punctuation, and format; and correct errors as necessary for consistency with the Commission's decision and may amend the ALJ's findings as necessary to be consistent with the Commission's decision.

905. Move that the Commission direct staff to draft an order consistent with the Commission's decisions with such changes necessary for organization, consistency, and clarity.