

## Staff Briefing Papers

Meeting Date July 30, 2020 Agenda Item \*1

Company Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co.

Docket No. **G-004/M-20-422**

**In the Matter of the Petition by Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Approval of a Gas Utility Infrastructure Cost Adjustment True-up Report for 2019 and Adjustment Factors**

Issues Should the Commission accept Great Plains Annual Report for the true-up of the 2019 revenue requirement and approve its Petition for approval of recovery of the 2019 Gas Utility Infrastructure Costs (GUIC)?

Staff	James S. Worlobah	James.worlobah@state.mn.us	651-201-2201
	Sundra Bender	sundra.bender@state.mn.us	651-201-2247

 **Relevant Documents**

**Date**

Great Plains – Petition for Approval of Recovery of the 2019 Gas Utility Infrastructure Costs (GUIC)	April 15, 2020
Department of Commerce – Comments	May 15, 2020
Great Plains – Reply Comments	May 20, 2020

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email [consumer.puc@state.mn.us](mailto:consumer.puc@state.mn.us) for assistance.

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.

## **Table of Contents**

I.	Statement of the Issues .....	1
II.	Introduction .....	1
III.	Background .....	1
IV.	Parties' Comments .....	3
A.	Great Plains .....	3
B.	Department of Commerce .....	3
1.	Timing of GUIC Rider Filing.....	4
2.	Gas Infrastructure Project Plan .....	4
3.	GUIC Rider Filing Requirements .....	4
4.	Prudence and Reasonableness of Costs.....	4
5.	Rate of Return .....	4
6.	Department Recommendation .....	5
V.	Staff Comment .....	5
VI.	Decision Alternatives .....	5

## I. Statement of the Issues

Should the Commission accept Great Plains Annual Report for the true-up of the 2019 revenue requirement and approve its Petition for approval of recovery of the 2019 Gas Utility Infrastructure Costs (GUIC)?

## II. Introduction

On April 15, 2020, Great Plains Natural Gas Co. (“Great Plains” or “the Company”), a Division of Montana-Dakota Utilities Co. submitted its Annual Report and petitioned for approval of recovery of the 2019 Gas Utility Infrastructure Costs (GUIC) under its GUIC Adjustment Rider. Pursuant to the Minnesota Public Utilities Commission’s (“Commission’s”) November 22, 2019 Order,<sup>1</sup> in Docket No. G-004/M-19-273, this annual report presented the true-up of the 2019 revenue requirement with actual costs and recoveries for the period ending December 31, 2019.

On January 1, 2020, Great Plains suspended the GUIC adjustment factors approved on February 12, 2019 in Docket No. G-004/M-18-282 and effective March 1, 2019 in compliance with the Commission’s Order issued on November 22, 2019 and deferred the true-up of the Company’s 2019 revenue requirement to this filing. As noted in the November 22 Order this approach moved the GUIC costs into interim rates, effective January 1, 2020, in the Company’s pending natural gas rate case (Docket No. G-004/GR-19-511) which represents the start of the Company’s test year in the rate case.

## III. Background

Minnesota Statute § 216B.1635 allows utilities to seek rider recovery of gas utility infrastructure costs. Gas utility infrastructure costs are those that are not included in the gas utility’s rate base in its most recent general rate case, and that are incurred in projects involving: (1) the replacement of natural gas facilities required by road construction or other public work by or on behalf of a government agency or (2) the replacement or modification of existing facilities required by a federal or state agency, including surveys, assessments, reassessment, and other work necessary to determine the need for replacement or modification of existing infrastructure.

Since December 21, 2016, Great Plains has proposed a GUIC rider to recover costs incurred in compliance with federal regulations<sup>2</sup> that set standards governing the safety, reliability, and

---

<sup>1</sup> ORDER APPROVING REQUEST TO SUSPEND GUIC RIDER, *In the Matter of the Petition of Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Approval of a Gas Utility Infrastructure Cost (GUIC) Adjustment True-up Report for 2018, 2019 Revenue Requirement, and Revised Adjustment Factors*, Docket No. G-004/M-19-273 (November 22, 2019)

<sup>2</sup> In December of 2003, PHMSA published the Transmission Integrity Management Rule or the “TIMP Rule” (49 C.F.R. 192, Subpart O). The TIMP Rule specifies how operators must identify, prioritize, assess, evaluate, repair, and validate the safety and integrity of its transmission pipelines that could affect High Consequence Areas or “HCAs”. HCAs are highly populated buildings or outdoor areas of population. As

integrity of natural gas distribution assets and infrastructure. The Commission has issued Orders approving Great Plains' petitions for updates to the GUIC rider to true up costs, and apply revenues collected and projected.

On October 6, 2017, the Commission issued its ORDER APPROVING RIDER AND RATE ADJUSTMENT FACTORS, AND REQUIRING COMPLIANCE FILING<sup>3</sup> authorizing Great Plains to establish a Gas Utility Infrastructure Cost (GUIC) rider for the recovery of costs related to its Distribution Integrity Management Program (DIMP). Specifically, the Company identified two capital projects for replacing polyvinyl chloride (PVC) pipe mains and services throughout the Company's service territory.

On September 6, 2019, Great Plains filed a Request to Modify the update to the GUIC rider and suspend the GUIC rates effective January 1, 2020 to reflect the pending general rate case filing. Great Plains also proposed to true-up the 2019 revenue requirement and to defer the true-up balance to the current annual filing.

On November 22, 2019, the Commission issued its order approving the request to suspend Great Plains' GUIC rider and recognizing the 2019 true-up would be proposed in this annual filing.

---

required by the rule, Great Plains implemented its TIMP program in December of 2004. Since its inception, several revisions have been made to the program. The latest revision (Rev. 4) was made in September of 2013. Great Plains' TIMP program consists of Fifteen Sections along with three associated appendices.

In December 2006, the President signed into law the Pipeline Inspection, Protection, Enforcement and Safety Act or the "PIPES Act". As a result of the PIPES Act, PHMSA's regulatory and enforcement authority was strengthened. The PIPES Act also mandates PHMSA to prescribe minimum standards for pipeline safety and integrity management programs for distribution pipelines. As a result, the law requires operators of distribution pipelines to continually identify and assess risks on their distribution systems to remediate conditions that present a potential threat to the integrity of their pipeline system. Operators must also monitor the program's effectiveness.

As prescribed in the PIPES Act, PHMSA published the Integrity Management Program for Gas Distribution Pipelines Rule or the "DIMP Rule" (49 CFR Part 192, Subpart P) in December of 2009. DIMP requires operators to know the make-up of their distribution system along with the written development of a distribution pipeline safety and integrity management program. The objective of the plan is to develop a model to assist in determining which areas of the gas distribution system to focus operation, maintenance and repair efforts and resources due to known or predicted threats to the distribution system. As required by the rule, Great Plains implemented their DIMP program and is currently operating under the latest revision effective in March of 2014.

<sup>3</sup> *In the Matter of the Petition of Great Plains Natural Gas Co. for Approval of a Gas Utility Infrastructure Cost (GUIC) Tariff and Adjustment*, Docket No. G-004/M-16-1066

IV. **Parties' Comments**

A. **Great Plains**

Great Plains submitted its Annual Report and petitioned for approval of recovery of the 2019 Gas Utility Infrastructure Costs (GUIC) under its GUIC rider tariff. Pursuant to the November 22, 2019 Commission Order in Docket No. G-004/M-19-273, this annual report presents the true-up of the 2019 revenue requirement with actual costs and recoveries for the period ending December 31, 2019.

**GUIC Costs and Recoveries**

Under Recovered Balance – December 31, 2018	\$605,049
2019 Actual Revenue Requirement	1,089,511
Less: Actual Recoveries: January 1 – December 31, 2019	<u>761,243</u>
<b>Total Required Recovery - Oct 2020 to Sep 2021</b>	<b>\$933,138</b>

Great Plains proposed to update its gas utility infrastructure cost (GUIC) adjustment rider tariff and implement a GUIC adjustment to be effective with service rendered on and after October 1, 2020 in accordance with the terms of the Gas Utility Infrastructure Costs tariff.

The calculation of the true-up of the project costs approved in Docket No. G-004-M-19-273 to be recovered through the GUIC rider includes the authorized return on investment, depreciation, ad valorem taxes and income taxes related to the projects. The rate of return is the rate previously authorized in Great Plains last rate case, in Docket No. G-004/GR-15-879, effective January 1, 2017.

In Docket No. G-004/M-18-282, the Commission required that Great Plains include in its future GUIC filings the Company's excess Accumulated Deferred Income Taxes (ADIT) balance and any corresponding amortization of the excess ADIT to be refunded to customers.<sup>4</sup> Great Plains recalculated Accumulated Deferred Income Taxes (ADIT) for its existing GUIC assets as of December 31, 2019. Since accelerated tax depreciation still exceeds book depreciation for those assets, the Company concluded that no ADIT refund was warranted at this time.

B. **Department of Commerce**

The Department reviewed Great Plains' Petition to determine whether Great Plains' request complies with applicable statutes and Commission orders and evaluated the reasonableness of the Company's proposals. Based on the result of its review, the Department recommended that the Commission approve Great Plains' petition.

---

<sup>4</sup> ORDER APPROVING 2017 TRUE-UP, 2018 REVENUE REQUIREMENT, AND REVISED ADJUSTMENT FACTORS, In the Matter of Great Plains Natural Gas Co.'s Petition for Approval of a Gas Utility Infrastructure Cost Adjustment True-up Report for 2017, 2018 Revenue Requirement, and Revised Adjustment Factors Docket No. G004/M-18-282 (February 12, 2019)

Based on its review, the Department believes the Company complied with the relevant specifications of Minn. Stat. § 216B.1635 as outlined below:

**1. Timing of GUIC Rider Filing**

The Department stated that the timing of the Company's GUIC filing and its proposed rate schedule implementation date complies with Minn. Stat. § 216B.1635, Subdivision 2, which requires that a utility's GUIC petition be filed at least 150 days before the effective date of the proposed GUIC rates.

**2. Gas Infrastructure Project Plan**

Minn. Stat. § 216B.1635, Subdivision 3 requires that any gas utility infrastructure project plan submitted under Subdivision 2 include the proposed projects' description and scope as well as the estimated costs and expected in-service dates. The Department noted that at pages 3-4 of Exhibit B, in Great Plains' Petition, the Company did provide the description, scope, actual (rather than estimated) costs, and in-service year of its 2019 GUIC projects.

**3. GUIC Rider Filing Requirements**

The Department stated that Great Plains complied with the GUIC Rider Filing Requirements as stipulated by Minn. Stat. § 216B.1635, Subdivision 4(1).

**4. Prudence and Reasonableness of Costs**

Based on Great Plains' description of its 2019 request for proposal (RFP process, the Department concluded that the Company had proposed rider recovery at the "lowest reasonable and prudent cost to ratepayers," as required by Minn. Stat. § 216B.1635, Subdivision 5.<sup>5</sup> The Department concluded that Great Plains' use of a competitive RFP bidding process for its 2019 GUIC projects provides sufficient support for the prudence and reasonableness of the Company's gas utility infrastructure costs incurred.

**5. Rate of Return**

The Department concurred that the Company complied with the stipulations by Minn. Stat. § 216B.1635, Subdivision 6, by using the rate of return most recently approved by the Commission in a Great Plains general rate case to compute the proposed adjustment rates.<sup>6</sup>

---

<sup>5</sup> Department's September 13, 2019 Comments in Docket No. G-004/M-19-273, pages 11 – 12.

<sup>6</sup> At the time Great Plains filed the instant Petition, the Commission had not yet issued an order for the Company's rate case in Docket No. G-004/GR-19-511.

## 6. Department Recommendation

Upon completion of its review and analysis, the Department recommended the Commission:

- Find that Great Plains' Petition complies with Minnesota Statutes, § 216B.1635.
- Approve Great Plains' 2019 GUIC true-up and the resulting revenue requirement of \$933,138.
- Approve Great Plains' proposed GUIC rider adjustment rates (factors), effective October 1, 2020.
- Within 10 days of the Commission's order in the instant docket, require that Great Plains submit a compliance filing that includes (1) the GUIC rider tariff sheet, updated with the newly authorized adjustment rates and their approved effective date and (2) the final version of the GUIC customer notice that Great Plains plans to include as a bill insert following Commission approval of new GUIC adjustment rates.

## V. PUC Staff Comment

Staff concurs with the Department's conclusion and recommendations.

## VI. Decision Alternatives

1. Find that Great Plains' Petition complies with Minnesota Statutes, § 216B.1635.
2. Approve Great Plains' 2019 GUIC true-up and the resulting revenue requirement of \$933,138.
3. Approve Great Plains' proposed GUIC rider adjustment rates (factors), effective October 1, 2020.
4. Within 10 days of the Commission's order in the instant docket, require that Great Plains submit a compliance filing that includes (1) the GUIC rider tariff sheet, updated with the newly authorized adjustment rates and their approved effective date and (2) the final version of the GUIC customer notice that Great Plains plans to include as a bill insert following Commission approval of new GUIC adjustment rates.