GREAT PLAINS
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July 24, 2014

Dr. Burl Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

RE: Docket No. G004/M-14-358
Reply Comments to the Comments of the Department of Commerce, Division of Energy Resources

Dear Dr. Haar:

Great Plains Natural Gas Co. (Great Plains), a Division of MDU Resources Group, Inc., herewith submits its Reply Comments to the Comments of the Department of Commerce (Department) filed on July 14, 2014, regarding Great Plains' 2013 Conservation Improvement Program (CIP) Tracker Account including a Proposed Conservation Cost Recovery Adjustment (CCRA) and Demand Side Management (DSM) Financial Incentive.

As discussed in these Reply Comments, Great Plains agrees with the Department's recommendation that the Minnesota Public Utilities Commission (Commission) approve the Company's CIP Tracker Account, including the proposed CCRA and DSM Financial Incentive. Great Plains disagrees, however, with the Department's recommendation that the Commission prohibit the recovery of carrying charges on under-or over-recovered balances in Great Plains' CIP tracker account in future filings.

Sincerely,

/s/ Tamie A. Aberle

Tamie A. Aberle
Director of Regulatory Affairs

cc: Brian Meloy
Service List

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Dr. David C. Boyd	Commissioner
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

In the matter of Great Plains Natural Gas Co.'s Request for Approval of its Proposed 2013 Conservation Improvement Program Tracker Account, Including a Proposed Conservation Cost Recovery Adjustment, and a Demand Side Management Financial Incentive for 2013.	)	Docket No. G004/M-14-358 **Great Plains Natural Gas Co. Reply Comments**

On April 30, 2014 Great Plains Natural Gas Co. (Great Plains), a Division of MDU Resources Group, Inc., submitted its Conservation Improvement Program (CIP) Tracker and Demand Side Management (DSM) financial incentive with the Minnesota Public Utilities Commission (Commission). On July 14, 2014, the Department of Commerce (Department) filed its Comments on Great Plains' filing. In its Comments, the Department recommends that the Commission approve Great Plains' 2013 CIP tracker account, proposed 2013 DSM financial incentive and proposed Conservation Cost Recovery Adjustment (CCRA) of $0.0747 per dk for all customer classes. Great Plains agrees with these Department recommendations.

The Department also recommends, however, that the Commission direct Great Plains to discontinue the recovery of carrying charges on under- or over-recovered balances in Great Plains' CIP tracker account in future filings, or alternatively, exclude the DSM incentive from the calculation of carrying charges. Great Plains opposes this recommendation.

As discussed below, applying carrying charges on under- or over-recovered balances in Great Plains' CIP tracker account is serving an important purpose: protecting both the Company and its customers from the timing difference between CIP cost incurrence and cost recovery. Should the Commission decide to change this long-standing policy, Great Plains believes that the Department's recommendation to discontinue applying carrying charges to the DSM incentive on a prospective basis adequately addresses the concerns raised by the Department in a reasonable and measured way.

I. DISCUSSION

A. Approval of Great Plains' CIP Tracker, CCRA and DSM Incentive.

In its July 14, 2014 Reply Comments, the Department recommends that the Commission approve Great Plains' (1) 2013 CIP tracker account, as provided in the Company's Petition and summarized in Table 1 of the Department's Comments; (2) proposed 2013 DSM financial incentive of $24,137; and (3) proposed CCRA of $0.0747 per Dth for all customer classes. Great Plains agrees with the Department's recommendations and appreciates the Department's thorough review.

B. Discontinuing The Application Of Carrying Charges On Under Or Over Recovered CIP Balances.

On page 6 of its July 14, 2014 Comments, the Department expressed concern at the amount of carrying charges being applied by utilities to over- and under-collected CIP tracker balances, noting that carrying charges have increased in recent years and can be costly to customers. The Department attributes the increase in carry charges to increases in the financial incentives available to utilities. Based upon its conclusion, the Department recommends that carrying charges on over- and under-collected CIP tracker balances be eliminated, or, alternatively, that carrying charges be disallowed on the financial incentive. Great Plains disagrees with the Department's recommendation to eliminate all carrying charges on CIP balances.

Initially, while increases in the DSM financial incentives available to utilities has increased due to utility conservation efforts, the carrying charges on the under or over recovery of CIP expenses is driven primarily by the timing difference between cost incurrence and cost recovery – not charges on the DSM incentives. In Great Plains' case, the increase in carrying charges is primarily due to the increase in CIP expenditures resulting from the recent change in Minnesota law (reflected in Minn. Stat. § 216B.241, Subd. 1c) which significantly increased the dollars invested in CIP. Only a small amount of Great Plains' 2013 carrying charges are due to the Company's DSM financial incentive.

In particular, in 2013, the amount of carrying charges associated with the financial incentives calculated under the above-mentioned change in Minnesota law are \$5,766, while the amount associated with the timing difference between cost incurrence and cost recovery is \$21,331. Because the tracker recovery is based on historical costs and there is a time lag between incurrence of cost and recovery, there tends to be an under-recovered balance when costs are increasing. When CIP expenditures increase rapidly, the recovery of such costs lags behind for a period of time. Table 1 below illustrates (1) the significant increase in CIP expenditures in recent years; and (2) the lag between the timing of the expenditures and effective date when those expenditures begin to be recovered.

Table 1

Year	Expenses	Efffective Date	Docket Number
2008	$256,468	4/14/2010	G-004/M-09-508
2009	186,584	6/22/2010	G-004/M-10-418,419
2010	428,067	12/1/2011	G-004/M-11-404
2011	351,655	1/1/2013	G-004/M-12-439
2012	401,694	10/25/2013	G-004/M-13-334
2013	378,793		G-004/M-14-358

Application of carrying changes to account for this lag is both necessary and reasonable.

As stated in the Department's comments on page 6, one of the reasons the Commission authorized utilities to apply carrying charges was to provide utilities an incentive to invest in energy conservation. Importantly, however, the timing difference between cost incurrence and cost recovery is the principal reason to apply carrying changes in the first instance and is intended to protect both the utility and its customers. In fact, one result of the Department's recommendation that the application of all carrying charges should be discontinued is that customers would no longer be made whole (inclusive of the time-value of money) when there is an over recovery in the tracker account, which can, and likely will, occur once the recovery of CIP costs catches up with recent increases in CIP expenditures. The application of carrying charges symmetrically is fair and merely ensures that ***both*** the Company and customers are made whole.

The same symmetry is arguably not applicable to carry changes applied to a DSM incentive. For this reason, Great Plains does not object to the Department's recommendation to disallow carrying charges on the Company's financial incentive on a prospective basis.

II. SUMMARY AND RECOMMENDATIONS

Great Plains requests the Commission approve the 2013 CIP Tracker Account including the proposed CCRA and DSM Financial Incentive and to continue to allow the application of carrying charges on under- or over-recovered balances in Great Plains' CIP tracker account in future filings. As noted above, however, Great Plains does not object to excluding the financial incentive from the carrying charge calculation on a prospective basis.

Dated: July 24, 2014

Sincerely,

/s/ Tamie A. Aberle

Tamie A. Aberle
Director Regulatory Affairs