

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
Nancy Lange
Dan Lipschultz
John Tuma
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

Tamie A. Aberle
Director of Regulatory Affairs
Great Plains Natural Gas Co.
400 North Fourth Street
Bismarck, ND 58501

SERVICE DATE: August 31, 2015

DOCKET NO. G-004/M-15-422

In the Matter of Great Plains Natural Gas Co.s' Petition for Approval of its CIP Tracker and Demand Side Management Incentive

The above entitled matter has been considered by the Commission and the following disposition made:

- 1. Approved Great Plains' 2014 financial incentive of \$42,180 to be included in the Company's CIP tracker no sooner than the issue date of this Order.**
- 2. Approved the CIP tracker activity and end of 2014 tracker balance as shown in Table 1 of the Department's July 1, 2015 Comments.**
- 3. Approved Great Plains' revised proposed CCRA of \$0.0225 per Dth for all customer classes and require that the CCRA approved by the Commission be effective in the billing month immediately following the issue date of this Order, conditioned on the Company submitting, within 10 days of this Order, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations.**
- 4. Required Great Plains, in future petitions for approval of its CIP Tracker and demand side management incentive, to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate as of the time the Company is preparing the petition.**
- 5. Required Great Plains to include the following bill message in the billing month immediately following the date of this Order:**

Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of

\$0.0225 per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

The Commission agrees with and adopts the recommendations of the Department of Commerce, which are attached and hereby incorporated into the Order. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION



Daniel P. Wolf
Executive Secretary

This document can be made available in alternative formats (e.g., large print or audio) by calling 651.296.0406 (voice). Persons with hearing loss or speech disabilities may call us through their preferred Telecommunications Relay Service.

July 1, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G004/M-15-422

Dear Mr. Wolf:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Great Plains Natural Gas Co.s' Petition for Approval of its CIP Tracker and Demand Side Management Incentive.

The petition was filed on May 1, 2015 by:

Tamie A. Aberle
Director of Regulatory Affairs
Great Plains Natural Gas Co.
400 North Fourth Street
Bismarck, ND 58501

The Department requests that Great Plains provide additional information in reply comments.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G004/M-15-422

I. SUMMARY

On May 1, 2015, Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company), submitted a petition (Petition) to the Minnesota Public Utilities Commission (Commission) containing the Company's

- 2014 Conservation Improvement Program (CIP) Status Report for the period January 1, 2014 through December 31, 2014,
- 2014 CIP Tracker filing, and
- Demand Side Management (DSM) Incentive for the period January 1, 2014 through December 31, 2014.

The Company also filed its 2014 CIP Status Report (Status Report) for the period January 1, 2014 through December 31, 2014. The Status Report is intended to fulfill the requirements of the Minnesota Department of Commerce, Division of Energy Resources' (Department) annual CIP reporting rules contained in Minnesota Rules part 7690.0500. Because the Company's Status Report does not require Commission approval, this portion of the Petition has been assigned to a separate docket.¹

II. DEPARTMENT ANALYSIS

The Department's analysis of Great Plains' Petition is provided in the following sections:

- in Section II.A, Great Plains' proposed 2014 gas DSM financial incentive;
- in Section II.B, Great Plains' proposed 2014 gas CIP tracker account;
- in Section II.C, Great Plains' proposed gas Conservation Cost Recovery Adjustment (CCRA); and

¹ See Docket No. G004/CIP-12-573.02.

- in Section II.D, a review of IPL's gas DSM and CIP activity and DSM financial incentives for the period 2010 through 2014.

A. *GREAT PLAINS' PROPOSED 2014 DSM FINANCIAL INCENTIVE*

1. *Background and Summary of Great Plains' Proposed 2014 DSM Financial Incentive*

The Shared Savings DSM financial incentive plan was approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010. On December 20, 2012 the Commission issued its *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives* (Modification Order). The Shared Savings approach emphasizes a 1.5 percent energy savings goal, and ties the incentive earned by the utility to pursuit of the 1.5 percent savings goal. The incentive mechanism sets a specific dollar amount per unit of energy saved that each utility will earn at energy savings equal to 1.5 percent of annual non-CIP-exempt retail sales. That dollar amount is referred to as the incentive calibration. The higher the calibration, the higher the incentive will be at all energy savings levels after the threshold. Specifically, each electric utility's incentive is calibrated so that when the utility achieves energy savings equal to 1.5 percent of retail sales, electric utilities will earn an incentive equal to \$0.07 per kWh saved and gas utilities will earn \$9 per thousand cubic feet (Mcf) saved. The Commission's Modification Order stated, in part:

The Commission hereby adopts the Department's proposal for the continuation of the new shared savings financial incentive with the following:

- A. A threshold set at half of the utility's average achievements from 2007 to 2011 for utilities with triennial CIPs beginning in 2013, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest. For utilities with triennial Conservation Improvement Programs beginning in 2014, the threshold shall be set at half of the utility's average achievements from 2008 to 2012, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest.
- B. The calibration at 1.5 percent of retail sales for each utility set as follows: (1) \$9.00 per Mcf for natural gas utilities, and (2) \$0.07 per kWh for electric utilities.
- C. A utility may not modify its incentive to correct for non-linear benefits.
- D. The incentive shall be capped at 20 percent of net benefits for all utilities except for Minnesota Power. The Commission will defer a decision on the application of the 20 percent cap of net benefits for Minnesota Power until 2013 to allow

for the consideration of updated avoided cost information for this utility.

- E. The existing cap of 125 percent of a utility's 1.5 percent calibration level for the electric utilities (\$0.0875 per kWh) and a cap of 125 percent of the 1.0 percent target calibration for gas utilities (\$6.875) per Mcf are continued.
- F. The percentage of net benefits to be awarded to each utility at different energy savings levels will be set at the beginning of each year.
- G. The CIP-Exempt Class shall not be allocated costs for the new shared savings incentive. Sales to the CIP-Exempt Class shall not be included in the calculation of utility energy savings goals.
- H. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.
- I. If a utility elects to include a third-party project, the project's net benefits and savings will be included in calculation of the percentage of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post CIP year calculations of net benefits and energy savings achieved and incentive awarded. In any case, the energy savings will count toward the 1.5 percent savings goal.
- J. The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive, but will not change the percent of net benefits awarded at different energy savings levels.
- K. The costs of any mandated, non-third-party projects (e.g., Next Generation Energy Act assessment, University of Minnesota Institute for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post-CIP year calculations of net benefits and energy savings achieved and incentive awarded.
- L. Costs, energy savings, and energy production from Electric Utility Infrastructure Projects (EUIC), solar installation and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.
- M. The Department shall file a recommendation with the Commission on the application of a net benefits cap for Minnesota Power's incentive by October 1, 2013. The recommendation should be filed in Docket No. E,G-999/CI-08-133.

- N. No adjustment will be made at this time to the calibration of the incentive mechanism for utilities that have Commission approved decoupling mechanisms.
- O. The new shared savings DSM incentive shall be in operation for the length of each utility's triennial CIP plan.

Under the revised shared savings DSM financial incentive plan approved by the Commission, Great Plains' may request Commission approval of a performance bonus based on the percent of net benefits that the Company achieves under its approved gas CIP. The shared savings plan links the incentive to the Company's performance in achieving cost effective conservation.

In its Petition, Great Plains' stated that its CIP activities achieved energy savings in 2014 of 19,788 dekatherms (Dth) and resulted in \$898,771 of net benefits.² Based on the terms and conditions of its approved DSM incentive plan, Great Plains requested approval of a 2014 financial incentive of \$42,180.

2. The Department's Review of Great Plains' Proposed 2014 DSM Financial Incentive

The Department's CIP Engineering Staff review of the energy savings that underpin Great Plains' 2014 DSM financial incentive is on-going, and in all likelihood will not be completed until the fall of 2014.³ This lag between the Company's request for recovery of the incentive and completion of the Department CIP Engineering Staff review is a recurring phenomenon. In its review of Great Plains' prior CIP tracker filing, the Department compensated for this lag by simply assuming that Great Plains' claimed energy savings for 2013 were corrected as filed and planned to make, in the instant docket, any adjustments approved by the Deputy Commissioner of the Department.⁴ The Department notes that the Deputy Commissioner accepted Great Plains' 2013 CIP Status Report without any adjustments and thus none need to be made in the instant docket.⁵

As was done last year, the Department's analysis assumes that Great Plains' claimed 2014 energy savings (19,788 Dth) are correct as filed. If the Deputy Commissioner of the Department subsequently approves changes to Great Plains' energy savings claims that impact either recovery of CIP budgets or levels of shared savings DSM financial incentives, those changes can be incorporated in the Company's 2015 filing, which will be made by May 1, 2016.

² See Petition, Attachment F.

³ See Docket No. G004/CIP-12-573.02.

⁴ See Docket No. G004/M-14-358.

⁵ See Docket No. G004/ CIP-12-573.01.

3. *The Department's Overall Recommendation Concerning Great Plains' 2014 DSM Financial Incentive*

The Department has reviewed Great Plains' calculation of its proposed 2014 DSM financial incentive of \$42,180, contained in Attachment F to its Petition, and recommends that the Commission allow it to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the instant docket.

B. *GREAT PLAINS' 2014 CIP TRACKER ACCOUNT*

In its Petition, Great Plains requested approval of its report on recoveries and expenditures in the Company's CIP tracker account during 2014. Table 1 provides a summary of activity in Great Plains tracker account during 2014.

Table 1
Summary of Great Plains'
2014 CIP Tracker Account Activity

Description	Amount
Beginning Balance Jan. 1, 2014	397,382
CIP Expenses During 2014	327,380
Carrying Charges During 2014	9,732
Base Rate Recovery During 2014	(157,563)
CCRA Recovery During 2014	<u>(626,686)</u>
Ending Balance Dec. 31, 2014	<u><u>(49,755)</u></u>

Source: Petition, Attachment E

The Department recommends that the Commission approve the Company's 2014 CIP tracker account as provided in the Company's Petition and summarized in Table 1 above.

C. *CONSERVATION COST RECOVERY ADJUSTMENT*

Minnesota Law states in relevant part that the Commission "may permit a public utility to file rate schedules for annual recovery of the cost of energy conservation improvements."⁶ This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment (CCRA).

In its Petition, the Company requested approval of a revised CCRA of \$0.0011 per Dth.⁷ Table 2 below provides a summary of Great Plains' calculation of its proposed CCRA.

⁶ See Minn. Stat. §216B.16, subd. 6b(c).

⁷ See Petition, Attachment E.

Table 2
Calculation of Proposed CCRA

Description	Amount
CIP Tracker Account Balance as of Jan.1, 2015	(49,755)
Actual and Estimated CIP Expenses Jan. - Aug. 2015	372,554
Actual and Estimated Carrying Charges Jan. - Aug. 2015	(374)
Proposed 2014 DSM Financial Incentive	42,180
Estimated CIP Cost Recovery via Base Rates Jan. - Aug. 2015	(88,392)
Estimated CIP Cost Recovery via Existing CCRA Jan. - Aug. 2015	<u>(270,556)</u>
Estimated CIP Tracker Account Balance as of Aug. 31, 2015	5,657
Projected Sales Sept. 2015 - Aug. 2016 (Dth)	<u>5,365,800</u>
Proposed CCRA (\$/Dth)	<u><u>0.0011</u></u>

The Department notes that in the past, Great Plains used its allowed rate of return from its most recent rate case to calculate carrying charges. However, order point five of the Commission's December 17, 2014 Order in Docket No. G004/M-14-439 states:

The Commission modifies the carrying charge on the CIP tracker-account balance to the October 29, 2014 U.S. two-year U.S. Treasury Bond rate. This change shall become effective in the month following the date of this order.

Consistent with the Commission's Order, the carrying charges for the period January through August 2015 used to calculate the proposed CCRA, and shown in Table 2 above, were calculated using the two-year U.S. Treasury bond interest rate as of October 29, 2014.

The Department notes that the Commission's Order specified the rate to be used in the instant Docket, but did not address the rate to be used for carrying charges in future petitions. The Department recommends that the Commission require Great Plains', in future petitions for approval of its CIP Tracker and demand side management incentive, to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate as of the time the Company is preparing the petition.

Table 3 below compares the Company's proposed CCRA of \$0.0011 per Dth with the Company's current CCRA of \$0.0747, and calculates the expected bill impact for an average residential customer.

Table 3
Change in CCRA and Bill Impact

	CCRC (\$/Dth)	CCRA (\$/Dth)	Total (\$/Dth)	Avg. Annual Residential Consumption (Dth)
Current Rate	0.0259	0.0747	0.1006	78
Proposed Rate	<u>0.0259</u>	<u>0.0011</u>	<u>0.0270</u>	78
Change (\$)	-	(0.0736)	(0.0736)	
Change (%)	0%	-99%	-73%	

Source: Petition, Attachment E

As shown, the proposed CCRA is 99 percent less than the current CCRA, due to the expected August 31, 2015 CIP tracker balance of only \$5,657. As a result of this proposed decrease in the CCRA, the amount paid by an average residential customer for CIP costs during the year is expected to be approximately \$5.75 less under the proposed CCRA than it would be under the current CCRA.

The Department notes that Great Plains' methodology for calculating its proposed CCRA of \$0.0011 per Dth is consistent with its past CIP tracker filings, but highlights one issue with the methodology. In short, in this Docket, Great Plains is essentially proposing to recover approximately \$145,500 in CIP-related revenue (roughly \$5,500 via its CCRA and \$140,000 via its Conservation Cost Recovery Charge, or CCRC, which is built into base rates) to pay for the Company's:

- 1) tracker balance as of September 1, 2015 (which reflects an estimate of expenses for the months of April-August 2015 based on Great Plains' authorized expenditures),
- 2) 2014 financial incentive, and
- 3) CIP expenses during the period September 1, 2015 through August 31, 2016.

Great Plains' methodology calculates the CCRA such that it is intended to recover the first two items listed, but the Company does not address the third item in its Petition. By omitting the expected CIP expenses to be incurred during the period the proposed CCRA will be in effect from the CCRA calculation, Great Plains' is implicitly relying solely on its CCRC revenue to cover its projected CIP expenses. This will likely result in a significant deficit in Great Plains' next CIP tracker filing.

Great Plains' CCRC of \$0.0259 per Dth was set in the Company's last rate case in 2004, based on test year CIP expenses of \$141,177 and a sales forecast of 5,460,873 Dth.⁸

⁸ See Docket No. G004/GR-04-1487.

Thus the CCRC is set to generate approximately \$140,000 per year in revenue for the Company.⁹ The table below reports actual CIP expenditures during the last three CIP tracker periods.

Table 4
Recent CIP Expenses

12 Months Ended:	CIP Expenses (Excluding Incentive)
Aug. 31, 2013	338,714
Aug. 31, 2014	431,049
Aug. 31, 2015	490,520

Source: GPNG CIP Tracker Filings

Note that the figure reported for the 12 months ended Aug. 31, 2015 relies on estimates of expenses for the the months April-Aug. 2015.

As shown, Great Plains' CIP expenses have greatly exceeded the expected CCRC revenue of \$140,000 in each of the past two periods, and the Company expects it will do so again this period. In fact, the Department notes that the Company's *minimum* spending requirement in 2014 (\$151,847) exceeded its expected CCRC revenue. Based on this recent history, it is reasonable to expect the Company's CIP expenses from September 1, 2015 through August 31, 2016 to exceed its CCRC revenues as well, and therefore it is likely that Great Plains' will have a significant tracker balance when it files its next CIP tracker filing if the proposed CCRA is approved.¹⁰

⁹ The Department notes that sales forecasts in each of the Company's last two CIP Tracker filings have been slightly lower than the sales forecast from the Company's last rate case.

¹⁰ In this Docket, Great Plains' estimated that its tracker balance as of September 1, 2015 will be only \$36,523, which in this context is relatively close to zero. The Department notes, however, that this is the result of two beneficial errors/twists of fate. First, in its prior CIP Docket, the Company estimated that its tracker balance on September 1, 2014 would be \$358,698 and its CCRA was set in order to collect that amount, plus Great Plains' financial incentive of \$24,137, over the 12 months beginning September 1, 2014. However, as shown in Attachment E of its Petition in the instant Docket, Great Plains' actual tracker balance on September 1, 2014 was only \$33,206. Thus, if Great Plains' had collected its intended amount of revenue (\$358,698 + \$24,137 = \$382,835), it would have "over-collected" CCRA revenue by approximately \$325,000. In fact, due in part to higher than expected sales, and in part to a delay in the implementation of proposed CCRA (which left the previous, higher, CCRA in effect for four months longer than expected), actual revenue during that period is now expected to be \$465,004, or \$82,169 higher than Great Plains' anticipated in 14-439. Together, these two fact situations gave Great Plains' more \$400,000 in "extra" revenue to offset CIP expenses during the period September 1, 2014 through August 31, 2015. Absent those two fact situations, Great Plains' estimated tracker balance for August 31, 2014 would be an undercollection of approximately \$365,000.

The Company indicated in telephone conversations that the reason it does not attempt to forecast expenditures farther out than August of the current year is that a large percentage of its expenditures are for individual large projects that are difficult to accurately predict. If a forecasted project does not materialize, the Company's CCRA will be too high and it will over-recover.

While the Department understands the difficulty the Company faces in forecasting large projects, the Department notes that this year, in particular, the Company has a large custom project that was initially expected to be completed in 2014, but is now expected to be completed in the fall of 2015. Thus, this year in particular, the Company may have more certainty surrounding its expected CIP expenses relative to past years and could set its CCRA accordingly.

Additionally, the Department notes that since the Commission reduced the rate at which carrying charges accrue from the Company's weighted average cost of capital to a much lower short-term debt rate (or in Great Plains' case, the interest rate on two-year treasury bonds), a mismatch in the timing of incurring expenses and collecting the revenue associated with the expenses has a much smaller financial impact on ratepayers. Nonetheless, the Department prefers to match the period in which expenses occur to the period in which revenue is collected for those expenses.

The Department requests that Great Plains explain in Reply Comments whether it would be appropriate to reflect this large custom project in the calculation of its CCRA, and if so, to provide a revised CCRA calculation.

D. REVIEW OF CUSTOMER NOTIFICATION

Great Plains proposed to update the relevant tariff sheet with the approved CCRA on the Company's website upon approval by the Commission. Although this proposal would provide some degree of notification, the Department recommends that a message be included on the customers' bills to provide better notification of the change in the approved CCRA. Specifically, the Department recommends that the Commission require Great Plains to include the following bill message in the billing month immediately following the date of the Order in the instant docket:

Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of [insert rate] per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

E. REVIEW OF GREAT PLAINS' DSM AND CIP ACTIVITIES (2010-2014)

Table 4 below presents a summary of Great Plains' DSM and CIP activities from 2010 through 2014. Table 4 provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, reported CIP expenditures, and reported energy savings have changed during the last five years.

**Table 5
 Summary of Great Plains' DSM and CIP Activities
 2009-2014**

	2010	2011	2012	2013	2014
DSM financial incentive	18,915	37,707	114,763	24,137	42,180
Incentive as % of CIP expenditures	4.4%	10.2%	28.6%	6.4%	12.9%
Carrying charges	(7,527)	10,979	24,008	27,097	9,732
Carrying charges as % of CIP expenditures	-1.8%	3.0%	6.0%	7.2%	3.0%
Year-end tracker balance	52,659	324,363	369,299	397,382	(49,755)
Year-end tracker bal. as % of CIP expenditures	12.3%	87.5%	91.9%	104.9%	-15.2%
CIP expenditures (excluding incentives)	427,847	370,570	401,694	378,793	327,380
Achieved energy savings (Dth)	17,426	24,604	41,509	14,969	19,788
Average cost per Dth saved	24.55	15.06	9.68	25.31	16.54

Source: Great Plains' annual CIP Filings

As shown in Table 5, Great Plains' 2014:

- proposed DSM financial incentive is approximately twice its 2013 incentive;
- carrying charges have declined to approximately one-third of 2013 carrying charges;
- year-end tracker balance is negative, and significantly less than the balance in 2011, 2012, and 2013;
- achieved energy savings, while up from 2013, are down from 2011, and only half of savings in 2012.

III. RECOMMENDATIONS

Based on the analysis above, the Department expects to recommend that the Commission:

- 1) approve Great Plains' 2014 financial incentive of \$42,180 to be included in the Company's CIP tracker no sooner than the issue date of the Commission's Order in the present docket;
- 2) approve the CIP tracker activity and end of 2014 tracker balance as shown in Table 1 above;

- 3) require Great Plains, in future petitions for approval of its CIP Tracker and demand side management incentive, to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate as of the time the Company is preparing the petition;
- 4) require Great Plains to include the following bill message (with the appropriate rate) in the billing month immediately following the date of the Order in the present docket:

Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of [insert rate] per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

The Department will make a final set of recommendations, including a recommendation regarding Great Plains' proposed CCRA, after it reviews the Company's reply comments.

/lt



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Mailing Address:
P.O. Box 176
Fergus Falls, MN 56538-0176
(218) 736-6935

July 15, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

RE: Docket No. G004/M-15-422
Reply Comments to the Comments of the Department of Commerce, Division of
Energy Resources

Dear Mr. Wolf:

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 1, 2015, regarding Great Plains' 2014 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 DSM Financial Incentive and CIP Tracker Account, and Great Plains agrees to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate in future petitions. In addition, Great Plains has provided additional information and a revised CCRA as requested by the Department.

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
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

In the matter of Great Plains Natural Gas Co.'s Request for Approval of its Proposed 2014 Conservation Improvement Program Tracker Account, Including a Proposed Conservation Cost Recovery Adjustment, and a Demand Side Management Financial Incentive for 2014.)	Docket No. G004/M-15-422
)	Great Plains Natural Gas Co.
)	Reply Comments

On May 1, 2015 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 1, 2015, the Department of Commerce (Department) filed its Comments on Great Plains' filing. In its Comments, the Department recommends that the Commission approve Great Plains' 2014 CIP tracker account and its proposed 2014 DSM financial incentive. The Department recommended that the Commission also require Great Plains to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate in future petitions. Great Plains agrees with these Department recommendations.

Additionally, the Department requested that Great Plains explain whether it would be appropriate to reflect a large custom project in the calculation of the CCRA, and if so, provide a revised CCRA calculation.

I. DISCUSSION

A. Approval of Great Plains' CIP Tracker, DSM Incentive and Interest Rate on Carrying Charges.

In its July 1, 2015 Reply Comments, the Department recommends that the Commission approve Great Plains' (1) 2014 CIP tracker account, as provided in the Company's Petition and summarized in Table 1 of the Department's Comments; (2) proposed 2014 DSM financial incentive of \$42,180; and (3) require Great Plains to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate in future petitions. Great Plains agrees with the Department's recommendations and appreciates the Department's thorough review.

B. Discussion on the Calculation of the CCRA.

On pages 7 through 9 of its July 1, 2015 Comments, the Department discusses the calculation of the CCRA and its concerns that the proposed rate would result in an under collection of CIP expenses during the period September 1, 2015 through August 31, 2016. In particular, the Department noted that the Company has indicated that it has a large custom project that was expected to be completed in 2014 but is now expected to be completed in the fall of 2015, and could add significant expenses during 2015. The Department requested that Great Plains explain whether it would be appropriate to reflect this large custom project in the calculation of its CCRA and, if so, to provide a revised CCRA calculation.

Great Plains has reviewed and subsequently determined that the large custom project is very likely to be completed during 2015 and does have significant associated expenses. The Measurement and Verification (M&V) Plan for this project has been approved by the Department and the M&V should be completed in the fall of 2015. Great Plains has revised its calculation of the CCRA to reflect an estimate of \$115,200

for the custom project and has also recalculated a revised CCRA calculation including that amount. Based on these assumptions, the CCRA rate would be \$0.0255 per dk rather than \$0.0011. See the Revised Attachment E for the calculation of the revised CCRA including the costs associated with the custom project described above.

II. SUMMARY AND RECOMMENDATIONS

Great Plains requests the Commission approve the 2014 CIP Tracker Account and DSM Financial Incentive and agrees to use the two-year U.S. Treasury bond interest rate to calculate carrying charges in future petitions. Great Plains has provided additional information and a revised calculation of its CCRA as requested by the Department. Great Plains agrees it would be appropriate to include the incentive associated with the custom project that is expected to be completed in the fall of 2015.

Dated: July 15, 2015

Sincerely,

/s/ Tamie A. Aberle

Tamie A. Aberle
Director Regulatory Affairs

**GREAT PLAINS NATURAL GAS CO.
CIP RATE TRUE-UP FILING
DOCKET NO. G004/M-15-422**

	Projected Dk 1/	Volumetric Allocation	CCRA Recovery	Proposed CCRA	Current CCRA 2/	Change
Residential	1,462,800	27.2600%	\$32,946	\$0.0225	\$0.0747	(\$0.0522)
Firm General	1,196,500	22.3000%	26,951	0.0225	0.0747	(0.0522)
Interruptible	1,397,500	26.0400%	31,471	0.0225	0.0747	(0.0522)
Transportation	1,309,000	24.4000%	29,489	0.0225	0.0747	(0.0522)
Total	<u>5,365,800</u>	<u>100.0000%</u>	<u>\$120,857</u>			

Rate change for the average customer using 78 Dk per year.

	Dk 3/	CCRC	CCRA	Total	Total CIP Cost
Current Rate	78	\$0.0259	\$0.0747	\$0.1006	7.85
Proposed Rate	78	0.0259	0.0225	0.0484	3.78
Change		0.0000	(0.0522)	(0.0522)	

The average residential customer will pay an annual CIP cost of \$3.78 per year.

- 1/ Projected dk throughput September 2015 through August 2016 pursuant to Docket No. G004/M-12-439. Excludes CIP-exempt customer dk throughput.
- 2/ Authorized in Docket No. G004/M-14-358, effective January 1, 2015.
- 3/ Reflects average normalized 2014 residential dk per customer.

**GREAT PLAINS NATURAL GAS CO.
CCRA FILING AND DEMAND INCENTIVE
DOCKET NO. G004/M-15-422**

<u>CIP True-Up</u>	<u>Beginning Balance</u>	<u>Expenses</u>	<u>Carrying Charges</u>	<u>Billed Recovery</u>	<u>Net Activity</u>	<u>Ending Balance</u>
2014 Activity	\$397,382	\$327,380	\$9,732	\$784,249	(\$447,137)	(\$49,755)
2015 Activity						
January - March Actual	(49,755)	\$107,550	(\$109)	\$247,987	(140,546)	
April - August 2015 Estimated		380,204	(265)	110,961	268,978	
	<u>(49,755)</u>	<u>487,754</u>	<u>(374)</u>	<u>358,948</u>	<u>128,432</u>	
Projected Balance September 1, 2015	<u>(\$49,755)</u>	<u>\$487,754</u>	<u>(\$374)</u>	<u>\$358,948</u>	<u>\$128,432</u>	<u>\$78,677</u>
DSM Incentive						<u>42,180</u> 1/
Total Balance						<u>\$120,857</u>

1/ Reflects \$42,180 or 4.69311 percent of the \$898,771 net benefits achieved in 2014.

**GREAT PLAINS NATURAL GAS CO.
CIP PROGRAM
2014**

Month	Beginning Balance	Carrying Charge 1/	Current Month Charges	Billed Recovery			Ending Balance
				CCRC	CCRA	Total	
December 2013							\$397,382
January 2014	\$397,382	\$2,851	\$21,179	\$24,640	\$97,739	\$122,379	299,033
February	299,033	2,146	21,116	21,179	84,065	105,244	217,051
March	217,051	1,558	32,722	19,285	76,591	95,876	155,455
April	155,455	1,116	25,227	14,854	59,077	73,931	107,867
May	107,867	774	9,856	11,386	45,391	56,777	61,720
June	61,720	443	21,548	7,718	30,847	38,565	45,146
July	45,146	330	22,660	5,371	21,455	26,826	41,310
August	41,310	310	12,926	4,267	17,073	21,340	33,206
September	33,206	252	16,805	6,307	25,172	31,479	18,784
October	18,784	148	36,301	10,650	42,432	53,082	2,151
November	2,151	29	26,508	12,449	49,572	62,021	(33,333)
December 2014	(33,333)	(225)	80,532	19,457	77,272	96,729	(49,755)
Total 2014		<u>\$9,732</u>	<u>\$327,380</u>	<u>\$157,563</u>	<u>\$626,686</u>	<u>\$784,249</u>	

1/ Reflects interest at authorized rate of return of 8.960%.

GREAT PLAINS NATURAL GAS CO.
CIP PROGRAM
2015

Month	Beginning Balance	Carrying Charge 1/	Current Month Charges	Billed Recovery			Ending Balance
				CCRC	CCRA	Total	
December 2014							(\$49,755)
January 2015	(\$49,755)	(\$19)	\$56,582 2/	\$20,214	\$73,864	\$94,078	(87,270)
February	(87,270)	(34)	17,861	18,377	53,059	71,436	(140,879)
March	(140,879)	(56)	33,107	21,234	61,239	82,473	(190,301)
April - est.	(190,301)	(76)	72,505	10,360	29,880	40,240	(158,112)
May - est.	(158,112)	(63)	28,349	5,594	16,135	21,729	(151,555)
June - est.	(151,555)	(61)	61,919	4,095	11,810	15,905	(105,602)
July - est.	(105,602)	(42)	65,109	4,105	11,840	15,945	(56,480)
Aug - est.	(56,480)	(23)	152,322 3/	4,413	12,729	17,142	78,677
Total 2015 YTD		<u>(\$374)</u>	<u>\$487,754</u>	<u>\$88,392</u>	<u>\$270,556</u>	<u>\$358,948</u>	

1/ Reflects the authorized interest at the two-year U.S. Treasury Bond rate as of October 29, 2014 of 0.48%, divided over 12 months, per Order No. G004/M-14-358, issued December 17, 2014.

2/ Includes DSM incentive amount of \$24,137 authorized in Docket No. G004/M-14-358.

3/ Includes estimated costs of \$115,200 for a large custom project to be completed in 2015.

July 28, 2015

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Sue 350
St. Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G004/M-15-422

Dear Mr. Wolf:

Attached are the Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Great Plains Natural Gas Co.'s Petition for Approval of its CIP Tracker and Demand Side Management Incentive.

The Department recommends **approval, with modifications**, and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

RESPONSE COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G004/M-15-422

I. INTRODUCTION AND BACKGROUND

On May 1, 2015, Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company), submitted a petition (Petition) to the Minnesota Public Utilities Commission (Commission) containing the Company's

- 2014 Conservation Improvement Program (CIP) Status Report for the period January 1, 2014 through December 31, 2014,
- 2014 CIP Tracker filing, and
- Demand Side Management (DSM) Incentive for the period January 1, 2014 through December 31, 2014.

On July 1, 2015, the Department filed Comments in which it concluded that Great Plains' Petition was largely reasonable, but noted that the Company has a large custom project that is expected to be placed in service in the fall of 2015, and that the expenses associated with this project were not reflected in the Company's proposed Conservation Cost Recovery Adjustment (CCRA). Omitting the project's expenses from the proposed CCRA calculations would create the potential for significant under-recovery during the period the proposed CCRA is expected to be in effect (September 1, 2015 through August 31, 2016). The Department requested that the Company explain in Reply Comments whether it would be appropriate to reflect the expected costs for this custom project in its proposed CCRA.

On July 15, 2015, the Company filed Reply Comments that addressed the Department's request.

II. DEPARTMENT ANALYSIS

A. LARGE CUSTOM PROJECT

In its Reply Comments, the Company stated that, after review, it has determined that the large custom project referenced in the Department's Comments is very likely to be completed during 2015, and concluded that it is reasonable to reflect the anticipated expenses of the project in the proposed CCRA. Great Plains' updated its CCRA calculation to reflect an estimate of \$115,200 in costs for the custom project. The updated calculations were provided with the Company's Reply Comments in Revised Attachment E.

As shown in Revised Attachment E, as a result of reflecting the custom project, the Company's proposed CCRA has risen from \$0.0011 per dekatherm (Dth) to \$0.0225 per Dth. Table 1 provides a summary of Great Plains' calculation of its revised proposed CCRA.

Table 1
Calculation of Revised Proposed CCRA

Description	Amount
CIP Tracker Account Balance as of Jan.1, 2015	(49,755)
Actual and Estimated CIP Expenses Jan. - Aug. 2015	487,754
Actual and Estimated Carrying Charges Jan. - Aug. 2015	(374)
Proposed 2014 DSM Financial Incentive	42,180
Estimated CIP Cost Recovery via Base Rates Jan. - Aug. 2015	(88,392)
Estimated CIP Cost Recovery via Existing CCRA Jan. - Aug. 2015	(270,556)
Estimated CIP Tracker Account Balance as of Aug. 31, 2015	120,857
Projected Sales Sept. 2015 - Aug. 2016 (Dth)	5,365,800
Proposed CCRA (\$/Dth)	0.0225

Source: Reply Comments, Revised Attachment E

Table 2 provides a summary of the expected bill impact the revised proposed CCRA will have for an average residential customer.

Table 2
Change in CCRA and Bill Impact

	CCRC (\$/Dth)	CCRA (\$/Dth)	Total (\$/Dth)	Avg. Annual Residential Consumption (Dth)	Avg. Annual CIP Cost (\$)
Current Rate	0.0259	0.0747	0.1006	78	7.85
Proposed Rate	<u>0.0259</u>	<u>0.0225</u>	<u>0.0484</u>	78	<u>3.78</u>
Change (\$)	-	(0.0522)	(0.0522)		(4.07)
Change (%)	0%	-70%	-52%		-52%

Source: Reply Comments, Revised Attachment E

As shown, the revised proposed CCRA is 70 percent less than the current CCRA, and the amount paid by an average residential customer for CIP costs during the year is expected to be approximately \$4.07 less under the revised proposed CCRA than it would be under the current CCRA.

The Department concludes that Great Plains' revised proposed CCRA of \$0.0225 per Dth is reasonable.

B. RECOMMENDATION REGARDING CARRYING CHARGE INTEREST RATE

As discussed in the in the Department's Comments, the Commission's December 17, 2014 Order in Great Plains' last CIP Docket, Docket No. G004/M-14-358 (the 2014 CIP Docket), required Great Plains to begin using the two-year U.S. Treasury Bond rate as of October 29, 2014 to calculate carrying charges on its CIP tracker balance. Prior to the 2014 CIP Docket, Great Plains, similar to other utilities, had been using the allowed rate of return from its most recent rate case to calculate carrying charges. The Commission has recently started requiring utilities to use their short-term costs of debt to calculate carrying charges on tracker balances, rather than full allowed rates of return.¹ Great Plains did not have any short-term debt in its last rate case, and thus did not establish a cost of short-term debt, and the two-year U.S. Treasury bond rate was used as a substitute.

In its Comments, the Department noted that the Commission's Order in the 2014 CIP Docket specified the rate to be used in the instant Docket, but did not address the rate to be used for carrying charges in future petitions. The Department therefore recommended that the Commission require Great Plains, in future petitions for approval of its CIP Tracker and demand side management incentive, to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate as of the time the Company is preparing the petition.

¹ See, for example, Docket No. E017/M-14-201.

In the course of preparing these Response Comments, the Department realized that it may have been the Commission's intention in the 2014 CIP Docket to set the interest rate at the specified level, and leave that interest rate in place until either (a) the Commission establishes a short-term cost of debt for the Company in a rate case, or (b) the two-year U.S. Treasury Bond rate as of October 29, 2014 becomes unreasonable for some other reason (e.g., interest rates change dramatically), in which case Great Plains could propose an adjustment.

The Department would not object to leaving the interest rate for carrying charges unchanged if this was the Commission's intention, however, the Department maintains its recommendation from its Comments that the Commission require Great Plains to update the interest rate annually. From the perspective of ratepayers, the difference between the two options is likely to be quite small. Additionally, the Department's recommendation eliminates some judgement regarding whether an adjustment might be necessary in a future petition, particularly if Great Plains does not establish a short-term cost of debt in a rate case for many years.

III. CONCLUSION AND RECOMMENDATIONS

Based on its analysis, the Department concludes that Great Plains' proposal is reasonable, and recommends that the Commission:

- 1) approve Great Plains' 2014 financial incentive of \$42,180 to be included in the Company's CIP tracker no sooner than the issue date of the Commission's Order in the present docket;
- 2) approve the CIP tracker activity and end of 2014 tracker balance as shown in Table 1 of the Department's July 1, 2015 Comments;
- 3) approve Great Plains' revised proposed CCRA of \$0.0225 per Dth for all customer classes and require that the CCRA approved by the Commission be effective in the billing month immediately following the issue date of the Order in the present docket, conditioned on the Company submitting, within 10 days of the Order, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations;
- 4) require Great Plains, in future petitions for approval of its CIP Tracker and demand side management incentive, to update the interest rate used to calculate carrying charges to reflect the two-year U.S. Treasury bond interest rate as of the time the Company is preparing the petition;

- 5) require Great Plains to include the following bill message in the billing month immediately following the date of the Order in the present docket:

Great Plains recovers the costs changes in its energy conservation programs from the base established in 2007 through a Conservation Cost Recovery Adjustment (CCRA) subject to MN Public Utilities Commission approval. A CCRA of \$0.0225 per dk as shown in the Resource Adjustment above is effective. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

/lt