

February 25, 2019

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E111/M-19-36

Dear Mr. Wolf:

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

Dakota Electric Association's 2019 Annual Resource and Tax Adjustment.

The petition was filed on January 9, 2019 by:

Corey Hintz
Director Financial Planning, Analysis and Regulatory
Dakota Electric Association
4300 220th Street West
Farmington, MN 55024.

The Department recommends **approval** and is available to respond to any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ ADAM J. HEINEN
Public Utilities Rates Analyst

AJH/jl
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E111/M-19-36

I. INTRODUCTION

On January 9, 2019, Dakota Electric Association (Dakota Electric, DEA, or the Cooperative) filed a petition requesting approval of the Cooperative's proposed Resource and Tax Adjustment (RTA) for the year 2019.

The RTA is a long-standing per-kilowatt-hour (per-kWh) surcharge (or credit) that recovers changes in three types of costs: purchased power costs, conservation costs, and property taxes. The tariff language applying the RTA is as follows:

The Energy Charge shall be adjusted for incremental changes in purchased power costs, incremental changes in Dakota Electric's conservation tracker account balance, and incremental changes in real and personal property taxes above or below the appropriate base costs. The conservation tracker account factor shall be calculated as described in the Resource Adjustment Rider (Sheet 51). The real and personal property tax factor shall be calculated as described in the Property Tax Adjustment Rider (Sheet 53). The purchased power cost factor shall be adjusted by \$0.0001 per kilowatt-hour or major fraction thereof, of which the Association's total projected power cost per kilowatt-hour annually exceeds, or is less than \$[0.XXXX¹] per kilowatt-hour sold. The year used for the annualized RTA will be January 1 through December 31. The projection shall be reviewed after six months (July) and adjusted if necessary. The RTA shall be filed with the Public Utilities Commission each year before implementation.

¹ This value may be \$0.0305, \$0.0497, \$0.0775, or \$0.0903 dependent upon rate code.

Pursuant to the requirements in Dakota Electric’s tariff, Dakota Electric has filed an RTA petition each year starting in 1997.² Dakota Electric’s proposed adjustments for the current year are as follows:

Table 1: Dakota Electric’s Proposed 2019 RTA Adjustments (\$/kWh)

Table 1: Dakota Electric’s Proposed 2019 RTA Adjustments (\$/kWh)		Purchased Power	Conservation	Property Tax	Total
Schedule³					
31	Residential	\$0.0024	\$0.0001	\$0.0000	\$0.0025
32	Res’l Dem. Control	\$0.0024	\$0.0001	\$0.0000	\$0.0025
36	Irrigation--Frim	\$0.0024	\$0.0001	\$0.0000	\$0.0025
37	Irrigation--Interruptible	(\$0.0006)	\$0.0001	\$0.0000	(\$0.0005)
41	Sm Gen’l Serv.	\$0.0024	\$0.0001	\$0.0000	\$0.0025
44	Street Lights	\$0.0024	\$0.0001	\$0.0000	\$0.0025
46	General Service	\$0.0024	\$0.0001	\$0.0000	\$0.0025
49	Geothermal Heat Pump	\$0.0018	\$0.0001	\$0.0000	\$0.0019
51	Controlled Energy Storage	\$0.0005	\$0.0001	\$0.0000	\$0.0006
52	Controlled Interruptible	\$0.0046	\$0.0001	\$0.0000	\$0.0047
53/55	Time of Day - Res'l	\$0.0024	\$0.0001	\$0.0000	\$0.0025
54	Time of Day – Gen’l Service	\$0.0024	\$0.0001	\$0.0000	\$0.0025
70	Interruptible Option - Full	(\$0.0006)	\$0.0001	\$0.0000	(\$0.0005)
71	Interruptible Option - Partial	(\$0.0006)	\$0.0001	\$0.0000	(\$0.0005)

II. DEPARTMENT ANALYSIS

As noted above, there are three factors that comprise DEA’s RTA: the purchased power cost adjustment, the conservation cost adjustment, and the personal property tax adjustment. The purpose of the RTA is to allow DEA to adjust rates for variations from the

² See docket numbers E111/M-97-722, 98-644, 99-695, 00-35, 01-72, 02-47, 03-47, 04-101, 05-110, 06-59, 07-44, 08-41, 09-32, 10-36, 11-48, 12-610, 13-37, 14-46, 15-40, 16-42, 17-33, and 18-44. Each year, the Department has reviewed Dakota Electric’s filing and the Commission has approved the RTA as filed.

³ The RTA does not apply to service taken under Schedule 45 (Low Wattage Unmetered Service) or Schedule 47 (Municipal Civil Defense Sirens).

predicted costs of each of these adjustments as compared to the rates determined in DEA's most recent rate case. By design, the RTA is forward-looking, based on estimated costs for the upcoming year, and designed to ensure that there is no double recovery of costs in the RTA and in the base rates. In addition, the mid-year adjustment affords timelier matching of costs DEA incurs to serve customers with revenues from customers in these areas. The Department separately reviews the three components of Dakota Electric's proposed 2019 RTA below.

A. PURCHASED POWER COSTS

Dakota Electric's power cost adjustment is allowed under Minnesota Statutes section 216B.16, subdivision 7, the relevant part of which states:

... the Commission may permit a public utility to file rate schedules containing provisions for the automatic adjustment of charges for public utility service in direct relation to changes in ... federally regulated wholesale rates for energy delivered through interstate facilities ...[or] costs for fuel used in generation of electricity.

The rules governing power cost adjustments are specified in Minnesota Rules parts 7825.2390 to 7825.2920. Per Minnesota Rules part 7825.2600, subpart 2, Dakota Electric is allowed to recover both demand costs and energy costs in its power cost adjustment, because Dakota Electric purchases over 75 percent of its annual total kWh sales.

The purchased power cost adjustment is defined as the difference between the projected cost of power and DEA's base cost of power rate approved in its most recent rate case. Six months after each January 1, DEA compares the projected power cost against actual costs to determine whether a change in the power cost adjustment is necessary to zero out any over- or under-recovery accumulated since January 1. If an adjustment is necessary, the factor is changed beginning with power consumed in July. Since the aggregate power cost adjustment credit or charge is based on the projected level of sales, the actual credits or charges received will generally not equal the actual amounts incurred. To account for this difference, DEA performs a true-up calculation at the end of each fiscal year, and includes any net over- or under-recovery in the subsequent year's power cost recovery calculation.

The power cost adjustment is recovered from members on a kWh basis; however, it is important to note that the adjustment is not the same for all members and rate classes. The power cost adjustment for non-interruptible members includes both energy and demand costs, while the adjustment for members taking interruptible service⁴ includes only

⁴ Rate Schedules 51, 52, 70, and 71.

energy costs. The Department also notes that the base cost of energy varies according to the type of interruptible service. In particular, customers taking service under the Geothermal Heat Pump Rider rate schedule have a different power cost adjustment because the base cost of power used is \$0.0775 per kWh instead of the \$0.0903 per kWh used for other non-interruptible members.

The Department reviewed DEA's calculation of the true-up and concludes that the calculation is accurate.⁵ The Department concludes that DEA's proposal to recover the difference between its base cost of energy and wholesale power costs through the power cost adjustment is appropriate.

B. DEMAND-SIDE MANAGEMENT AND CONSERVATION ADJUSTMENT

DEA's approved Demand-Side Management (DSM) and conservation spending additions from the previous calendar year are recovered from January 1 through December 31 of the next year. The recovery factor is computed using the same kWh sales projections used for the purchased power cost adjustment factor discussed in Section II.A above. Dakota Electric calculates the conservation adjustment by dividing the recoverable conservation tracker balance by the kWh sales projections. The recoverable conservation tracker balance is the balance leftover from the previous year (with a carrying charge adjustment) plus approved conservation expenses for the year in question, minus the conservation expenses recovered in base rates.

Dakota Electric's DSM and conservation adjustment is allowed under Minnesota Statutes section 216B.16, subdivision 6b, paragraph (c) and section 216B.241, subdivision 2b, which state in relevant part:

[216B.16, subd. 6b(c)]: The Commission may permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements.

[216B.241, subd. 2b:] The Commission shall allow a cooperative electric association subject to rate regulation under section 216B.026 [such as Dakota Electric], to recover expenses resulting from energy conservation improvement programs, load management programs, and assessments and contributions to the energy and conservation account unless the recovery would be inconsistent with a financial incentive proposal approved by the Commission.

⁵ The Department requested the electronic spreadsheets supporting the Cooperative's calculations via email. The Department reviewed these supporting spreadsheets and concludes that Dakota Electric calculated the power cost adjustment in compliance with the Commission's approved methodology.

DEA proposed a DSM and conservation adjustment of \$218,898, including a \$33,331 under-recovery for 2018, as shown on Schedules A3 and B2 of DEA's filing. The Cooperative expects to have an under-recovered balance of \$37,967 at the end of 2019.⁶ The Department reviewed DEA's calculation of the DSM and conservation adjustment and concludes that the calculation is accurate. The Department concludes that DEA's proposed DSM and conservation adjustment is appropriate.

C. PERSONAL PROPERTY TAX ADJUSTMENT

Prior to changes approved during the 2016 Minnesota Legislative Session, Dakota Electric was required to meet the Conservation Improvement Program spending prerequisite in Minn. Stat. 216B.241, subd. 2b.⁷ The 2016 Minnesota Legislative Session enacted Minnesota Statutes section 216B.1647, which states:

A cooperative electric association that has elected to be subject to rate regulation under section 216B.026 [such as Dakota Electric] is eligible to file with the Commission for approval an adjustment for real and personal property taxes, fees, and permits.

Dakota Electric calculates its property tax adjustment by allocating the incremental annual property tax expense to each rate class according to the property tax allocation factors from the most recent approved class cost of service study. DEA then divides these allocated amounts by projected rate class retail energy sales to arrive at the adjustment for each class. The incremental annual property tax expense is the forecasted annual property tax expense not recovered in base rates, adjusted for any over- or under-recovered balance from the prior year.

⁶ The Department requested the electronic spreadsheets supporting the Cooperative's calculations via email. The Department reviewed these supporting spreadsheets and concludes that Dakota Electric calculated the DSM and conservation cost adjustment in compliance with the Commission's approved methodology.

⁷ Minn. Stat. 216B.241, subd. 2b, states, in part:

A public utility is eligible to file for adjustment for real and personal property taxes, fees and permits under this subdivision only if, in the year previous to the year in which it files for adjustment, it has spent or invested at least 1.75 percent of its gross revenues from provision of electric service, excluding gross operating revenues from electric service provided in the state to large electric customer facilities for which the commissioner has issued an exemption under subdivision 1a, paragraph (b), and 0.6 percent of its gross revenue from provision of gas service, excluding gross operating revenues from gas services provided in the state to large electric customer facilities for which the commissioner has issued an exemption under subdivision 1a, paragraph (b), for that year for energy conservation improvements in this section.

The Department reviewed DEA's calculation of the true-up and concludes that the calculation is accurate.⁸ The Department concludes that DEA's proposal to recover the difference between its base level of personal property taxes and projected personal property taxes through the personal property tax adjustment is appropriate.

D. COMPLIANCE WITH COMMISSION ORDERS

In its April 22, 1996 *Order* in Docket No. E111/M-95-1395 approving the RTA, the Commission ordered DEA to provide the following information as part of its future filings:

- The finalized current year's total real and personal property tax bill and its proposed filing to true-up its annual tax adjustment rider.
- Information to verify that the incremental real and personal property tax recovery is limited to known and actual gross revenues and conservation expenditures.

The Department notes that DEA submitted the relevant information set forth in the Commission's April 22, 1996 *Order*.

The Department also reviewed DEA's petition to ensure that it preserved the existing rate design. In Docket No. E111/M-95-1395 concerning the RTA, DEA and the Department agreed that the increased tax expense should be allocated to the customer classes based on the class-cost-of-service method in DEA's most recent rate case. DEA's most recent rate case was approved by the Commission in its June 8, 2015 *Order* in Docket No. E111/GR-14-482. As part of this filing, DEA submitted a schedule detailing the allocation of taxes to the various classes, along with the net recoverable balance after any over- or under-recovery. A review of the schedule indicates that DEA allocated its taxes among the rate classes in compliance with the Commission's April 22, 1996 *Order*.

The Department concludes that DEA complied with the Commission's *Order* in Docket No. E111/M-95-1395.

III. DEPARTMENT RECOMMENDATION

The Department recommends that the Commission approve Dakota Electric's proposed 2019 RTA factors.

⁸ The Department requested the electronic spreadsheets supporting the Cooperative's calculations via email. The Department reviewed these supporting spreadsheets and concludes that Dakota Electric calculated the personal property tax adjustment in compliance with the Commission's approved methodology.

/jl

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Comments**

Docket No. E111/M-19-36

Dated this 25th day of February 2019

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_19-36_M-19-36
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