May 25, 2018

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-18-118

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 Company's 2017 Conservation Improvement Program Status Report and CIP Tracker and Demand Side Management Incentive (*Petition*).

The *Petition* was filed on April 25, 2018, 2017 by:

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

As discussed in greater detail in the attached *Comments*, the Department recommends **approval** of Great Plains Natural Gas Company's filing. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have in this matter.

Sincerely,

/s/ DANIELLE WINNER
Rates Analyst

DW/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G004/M-18-118

I. SUMMARY OF THE UTILITY'S FILING

On April 25, 2018, Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company), submitted its *2017 Conservation Improvement Program Status Report and CIP Tracker and Demand Side Management Incentive* (*Petition*) to the Minnesota Public Utilities Commission (Commission, MPUC, or PUC). The Company's *Petition* included:

- a report of proposed recovery and expenditures in its Conservation Improvement Program (CIP) tracker account during 2017; and
- a proposed change to the Conservation Cost Recovery Adjustment (CCRA).

The Company did not request a Demand Side Management (DSM) financial incentive, because, per the newly adopted incentive guidelines, the Company's 2017 CIP results do not qualify for a DSM incentive.

In addition, Sections I and II of the *Petition* contained the Company's *2017 Conservation Improvement Program Status Report* (*Status Report*) for the period January 1, 2017 through December 31, 2017. The *Status Report* is intended to fulfill the requirements of the Minnesota Department of Commerce, Division of Energy Resources' annual CIP reporting rules contained in Minnesota Rules part 7690.0500. Since the Company's *Status Report* does not require Commission approval, this portion of the *Petition* has been assigned a separate docket number.[1]

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) provides its analysis and recommendations below.

[1] See Docket No. G004/CIP-16-121.01.

II. COMMISSION'S 2017 ORDER

On August 16, 2017, the Commission issued its Order in Docket No. G004/M-17-338 approving Great Plains' DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved Great Plains' 2016 CIP tracker account, as summarized in Table 1 on page 7 of the Department's June 29, 2017 comments, resulting in a 2016 tracker balance of $1,060,837;
2. Approved an incentive of $345,928 for Great Plains' 2016 CIP achievements;
3. Approved a CCRA of $0.2097 per dekatherm (Dth), to be effective September 1, 2017;
4. Required Great Plans to include a bill message for publication, with the appropriate rate, in the billing month immediately following the date of the order; and
5. Required Great Plans to submit a compliance filing within 10 days of the issue date of the order, with revised tariff sheets.

Furthermore, in past CIP filings, the Commission has directed Great Plains to do certain things for all future CIP filings. Those directives include:

- Required Great Plains, in future CIP filings, to update the interest rate used to calculate carrying charges to match the short term cost of debt approved by the Commission in the Company's most recent rate case;
- Required Great Plains to use a CCRA calculation methodology that adequately accounts for carrying charges associated with the financial incentive; and
- Required Great Plains, in future CIP filings, to calculate the CCRA based on the existing tracker balance, as well as projected sales, expenditures, financial incentive(s), and any pertinent adjustments that may occur over the period the CCRA will be in place.

III. THE DEPARTMENT'S ANALYSIS

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

- in Section III.A, Great Plains' 2017 DSM financial incentive;
- in Section III.B, Great Plains' proposed 2017 CIP tracker account;
- in Section III.C, Great Plains' proposed CCRA; and
- in Section III.D, a review of Great Plains' CIP activities for the period 2009 through 2017.

A. UPDATED DSM FINANCIAL INCENTIVE CALCULATION

1. Background and Summary of DSM Financial Incentive

The Shared Savings DSM financial incentive plan was initially approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010.[2]

The Commission approved a modified Shared Savings DSM financial incentive mechanism in its August 5, 2016, *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan,* Docket No. E,G999/CI-08-133. The new mechanism, which began January 1, 2017, is triggered when electric utilities achieve energy savings of 1 percent, and gas utilities achieve 0.7 percent, of the utility's most recent three-year average of weather-normalized retail sales.[3] For 2017, the electric and gas incentives are capped at 13.5 percent of net benefits and 40 percent of Conservation Improvement Program (CIP) expenditures. The Commission's Order included the following:

> 1. The Commission hereby revises its Shared Savings DSM Financial Incentive Plan with the modifications set forth below.
>
>   A. For electric utilities, the plan is modified to do the following:
>   1) Authorize financial incentives for a utility that achieves energy savings of at least 1.0 percent of the utility's retail sales.
>   2) For a utility that achieves energy savings equal to 1.0 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
>   3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.7 percent of retail sales.
>   4) For savings levels of 1.7 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.

[2] For more, see the Commission's December 20, 2012 *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives.*
[3] Excluding retail sales to customers who are owners of a large customer facility and have been granted an exemption by the Department's Commissioner under Minnesota Statutes §216B.241, Subd. 1a(b).

B. For gas utilities, the plan is modified to do the following:
   1) Authorize financial incentives for a utility that achieves energy savings of at least 0.7 percent of the utility's retail sales.
   2) For a utility that achieves energy savings equal to 0.7 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
   3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.2 percent of retail sales.
   4) For savings levels of 1.2 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.

C. For all utilities, set the following Net Benefit Caps:
   1) 13.5 percent in 2017,
   2) 12.0 percent in 2018, and
   3) 10.0 percent in 2019.

D. For all utilities, set the following Conservation Improvement Plan (CIP) Expenditure Caps:
   1) 40 percent in 2017,
   2) 35 percent in 2018, and
   3) 30 percent in 2019.

2. The Commission retains certain provisions from the current Shared Savings DSM Financial Incentive Plan, with slight modifications, as follows:

A. CIP-exempt customers shall not be allocated costs for the new shared savings incentive. Sales to CIP-exempt customers shall not be included in the calculation of utility energy savings goals.

B. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.

C. If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.5 percent savings goal.

D. The energy savings, cost, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive.

E. The costs of any mandated, non-third-party projects (e.g., the 2007 Next Generation Energy Act assessments,[4] University of Minnesota Initiative for Renewable Energy and the Environment costs[5]) shall be excluded from the calculation of net benefits and energy savings achieved and incentive awarded.

F. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs,[6] solar installation,[7] and biomethane purchases[8] shall not be included in energy savings for DSM financial incentive purposes.

3. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.

4. Utilities may discontinue the annual February 1 compliance filing because a scale of net benefits will no longer be required since the Department's proposal sets percentages at certain savings thresholds and calibrates the mechanism to dollars per unit of energy.

Great Plains calculated that its 2017 performance results in a Shared Savings DSM financial incentive of $0. The Company stated that it did not earn an incentive for 2017 because it only achieved 24% of its approved savings goal, and for gas utilities, the earning threshold is 70%. Specifically, Great Plains reported that it saved 13,577 dekatherms (Dth) of the 1% goal of

[4] *See* 2007 Laws, art. 2.
[5] *Id.*, § 3, subd. 6.
[6] Minn. Stat. § 216B.1636.
[7] Minn. Stat. § 216B.241, subd. 5a.
[8] *Id.*, subd. 5b.

56,904.[9] With respect to net benefits, Great Plains provided in its *Petition* the benefit-cost results of the revenue requirements test associated with the Company's 2017 CIP. Great Plains reported that in 2017, the Company's CIP produced an estimated $227,111 of net benefits.[10]

2. The Department's Review of Great Plains' Proposed 2017 DSM Financial Incentive

The Department's engineering-oriented analysis of the energy savings and net benefits in Great Plains' filing is ongoing. This analysis will not be completed before the instant *Comments* are due. The existence of this lag between the Department's review of the DSM financial incentive, CIP tracker, and CCRA, and the completion of the Department's engineering review is a recurring phenomenon.

Last year, as in previous years, the Department compensated for this lag by simply assuming Great Plains' claimed energy savings for 2016 were correct as filed and planned to make any adjustments approved by the Deputy Commissioner of the Department in the instant filing. On July 29, 2016, the Deputy Commissioner approved Great Plains' 2016 Status Report without any adjustments in Docket No. G004/CIP-12-573.04, and thus none need to be made in the instant docket.

In the event that the Deputy Commissioner of the Department approves a different energy savings or net benefits for the current 2017 Status Report in Docket No. G004/CIP-16-121.01, the Commission can approve any adjustments to the Company's 2017 DSM financial incentive or CIP tracker when it considers the Company's 2018 filing, which will be made by May 1, 2019.

B. GREAT PLAINS' 2017 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 2017. Table 1 provides a summary of these activities.

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[9] The Department notes that the Company uses dekatherms, denoted dk in Company filing, rather than thousand cubic feet (Mcf).
[10] *Petition*, Attachment F.

Table 1: Summary of Great Plains' CIP Tracker Account in 2017[11]

Description	Time Period	Amount
Beginning Balance	January 1, 2017	$1,060,837
CIP Expenditures[12]	January 1 through December 31, 2017	$403,118
Recovery via Base Rates (CCRC)	January 1 through December 31, 2017	($368,014)
Recovery via CCRA	January 1 through December 31, 2017	($1,226,330)
Carrying Charges[13]	January 1 through December 31, 2017	$8,659
2016 DSM Financial Incentive	September 2017	$345,928
Ending Balance (Over)/Under	December 31, 2017	$224,198

The Company's CIP tracker reflects the Commission's 2016 DSM financial incentive of $345,928. As such, Great Plains reported CIP Expenditures of $749,046, with the figure including this DSM financial incentive.

The Company used an annual carrying charge rate that reflects the Company's short term cost of debt approved in Great Plains' most recent rate case (Docket No. G004/GR-15-879). This was a rate of 1.610%, divided by 12, for a monthly carrying charge rate of 0.0625%.

The Department concludes that the Company's 2017 CIP tracker accurately reflects activity during that period, and recommends that the Commission approve the 2017 CIP tracker, as summarized in Table 1.

C. GREAT PLAINS' CONSERVATION COST RECOVERY ADJUSTMENT

1. Great Plains' Proposed CCRA

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."[14] This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment (CCRA).

[11] *Petition*, Attachment E, pages 2-3.
[12] The Company's CIP tracker lumps the financial incentive in with the CIP Expenditures. CIP Expenditures also include Next Generation Energy Act of 2007 (NGEA) assessments of $19,432 and Employee Expenses, which include categories such as travel and meals, of $84 (*Petition*, pages 11-12).
[13] The Company's 2017 CIP tracker account was under-recovered for the majority of the year, and so total annual carrying charges accrued in the favor of the Company.
[14] See Minn. Stat. §216B.16, subd. 6b(c).

In its *Petition*, Great Plains requested approval of a revised CCRA of $0.0130 per Dth, a decrease of $0.1967 from the current CCRA of $0.2097.[15] The proposed CCRA was derived by assuming recovery of a total of $76,157 through the CCRA over a 12-month period, with 5,847,400 Dth in sales. The Company stated that as a result of the CCRA decrease, the average residential customer using 76 Dth per year would pay a total annual CIP cost of $5.21, a $14.95 decrease from the current total annual CIP cost of $20.16.[16] The Company proposed this CCRA to become effective September 1, 2018.

1. The Department's Review of Great Plains' Proposed CCRA

The dramatic decrease in the CCRA this year partially reflects the fact that the tracker balance and CCRA were higher than normal for the past two years, as the Company switched from a backward-looking CCRA to a forward-looking one. The high tracker balance was exacerbated when the Company set a negative CCRA during the 2015 rate case.[17]

The Department recommended the forward-looking methodology because it helps utilities maintain a tracker balance closer to zero, which minimizes carrying charges, and helps utilities account for CIP expense fluctuations. The Commission agreed with the Department's recommendations, and so directed the Company "to calculate the CCRA based on the existing tracker balance, as well as the projected sales, expenditures, financial incentive(s), and any pertinent adjustments that may occur over the period the CCRA will be in place."

The switch to the forward-looking methodology appears to have had the expected result. At its highest, the tracker balance was set at $1.6 million, and is now down to a more reasonable $224,000. However, since the current rate was originally set to compensate for negative CCRA in place during the general rate case proceeding, the Company expects to overshoot the $0 tracker balance ideal, estimating a balance of ($494,790) by the time the new proposed CCRA takes effect on September 1, 2018. This projection with the current CCRA is shown in Table 2 below.

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[15] See *Petition*, Attachment E, Page 1.

[16] Total estimated annual CIP costs include both CCRC and CCRA charges. *Petition,* Attachment E, Page 1.

[17] In the Company's rate case in Docket No. G004/GR-15-879, the Company increased its Conservation Cost Recovery Charge (CCRC) beginning January 1, 2016 and incorrectly decreased the CCRA by the same amount beginning the same date. This resulted in a negative CCRA, which moved the Company further from its CIP tracker goal of zero. The Department raised concerns about this treatment of the CCRA in the Company's CIP filing in Docket No. G004/M-16-384, and the Commission clarified in Order Point 7 of its November 23, 2016 Order that the CCRA should only be adjusted after a thorough review of the Company's CIP tracker.

Table 2. Great Plains Natural Gas's Projected Activity through August 31, 2018

Description	Amount
January 1, 2018 Beginning Balance	$224,198
CIP Expenditures, Jan – Aug 2018 (Apr-Aug Estimated)	$362,343
Carrying Charges, Jan – Aug 2018 (Apr- Aug Estimated)	($3,395)
CCRC Recoveries (Base Rates), Jan – Aug 2018 (Apr-Aug Estimated)	($225,907)
CCRA Recoveries, Jan – Aug 2018 (Apr-Aug Estimated)	($852,029)
Ending Balance, August 31, 2018	($494,790)

Although the Department notes that the implementation of a new CCRA sooner than the proposed September 1, 2018 would mitigate the current over recovery of the tracker balance, it may not be administratively feasible to set an earlier implementation date. Accordingly, the Department supports the Company's proposal to implement its proposed CCRA, which is set to bring the tracker to $0 by the end of August, 2019. Table 3 shows the Company's calculation of the currently proposed CCRA of $0.01307/Dth.

**Table 3. Great Plains Natural Gas's Calculation of Proposed CCRA,
to be effective September 1, 2018**

Description	Amount
September 1, 2018 Beginning Balance	($494,790)
CIP Expenditures, Sept 2018 – Aug 2019	$899,549
Carrying Charges, Sept 2018- Aug 2019	($3,487)
Estimated CCRC Recoveries (Base Rates), Sept 2018- Aug 2019	($325,115)
2017 DSM Financial Incentive	$0
Total Proposed to be Recovered Through CCRA, Sept 2018- Aug 2019	$76,018
Projected Annual Sales, Sept 2018- Aug 2019 (Dth)	5,847,400
Proposed CCRA ($/Dth)	$0.01307

2. 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, as it did last year, that a message also be included on the customers' bills to provide better notification of the change in the approved CCRA, and to include its intent to do so in future CCRA filings. 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 [insert effective date]. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

D. REVIEW OF GREAT PLAINS' DSM AND CIP ACTIVITIES (2010-2017)

In Attachment A, Table 1, the Department presents a historical comparison of Great Plains' DSM and CIP activities during the period 2010 through 2017. This table provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and energy savings have changed during that period.

An analysis of Attachment A, Table 1 indicates that, in 2017 the Company's energy savings were 13,577 Dth, which is the lowest savings recorded over this period. This is compared to a high of 69,393 Dth in 2015 and a next-lowest of 14,969 Dth in 2013. The Company's 2017 incentive was $0, compared to a high of $477,077 in 2015 and a next-lowest incentive of $18,915 in 2010.

While the Company's savings and incentive are atypically low, the Company's spending and year-end tracker balance both achieve more of a middle ground. The Company's 2017 expenditures were $403,118, compared to a high of $724,644 in 2015 and a low of $327,380 in 2014. The Company's 2017 year-end tracker balance was $224,198; this compares with a low of ($49,755) in 2014 and a high of $1,060,837 in 2016.

Since the Company's spending is historically average, but savings are historically low, the Company experienced its highest cost-per-Dth saved in the period reviewed, at $29.69/Dth. The Company's next highest first-year energy savings cost was in 2010, at $24.55; last year's first-year energy savings cost was $11.33/Dth.

In its filing, the Company provided the following explanation for the unusually low annual CIP savings in 2017:

> The reduction in expenditures and variance from the authorized portfolio expenditures for 2017 is primarily attributable to the lack of custom projects. The continuing low commodity price of natural gas has decreased the incentive for customers to partake in custom

> conservation Projects. Excluding this line item, 2017 expenditures were at approximately 86 percent of the budgeted expenditures.

The Department's CIP engineering staff confirm that custom projects typically achieve higher energy savings than other project types, and at a relatively low cost. Project participation challenges will be assessed in the Department's subsequent engineering review of the Company's 2017 CIP Status Report.

IV. RECOMMENDATIONS

The Department recommends that the Commission:

1. Approve Great Plains Natural Gas's 2017 CIP tracker account, as summarized in Table 1 above, resulting in a 2017 tracker balance of $224,198;
2. Approve a 2018/2019 CCRA of $0.0130 per Dth, to be effective September 1, 2018, or the first day of the month following the Commission's Order in this matter;
3. Require Great Plains Natural Gas 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 [insert effective date]. Learn more about reducing your energy use by visiting our website at www.gpng.com or calling us at 1-877-267-4764.

4. Require Great Plains Natural Gas to submit a compliance filing, within 10 days of the issue date of the Order in the present docket, with revised tariff sheets reflecting the Commission's determinations in this matter.

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Table 1: A History of Great Plains Natural Gas's DSM and CIP Activities (2010-2017)[18]

	2010	2011	2012	2013	2014	2015	2016	2017
Source: Great Plains Annual CIP Filing Docket	11-404	12-439	13-334	14-358	15-422	16-384	17-338	18-118
DSM financial incentive ($)	18,915	37,707	114,763	24,137	42,180	477,077	345,928	0
Incentive as % of CIP expenditures	4.4%	10.2%	28.6%	6.4%	12.9%	65.8%	53.9%	0.0%
Carrying charges ($)	(7,527)	10,979	24,008	27,097	9,732	(1,094)	2,346	8,659
Carrying charges as % of CIP expenditures	-1.8%	3.0%	6.0%	7.2%	3.0%	-0.2%	0.4%	2.1%
Year-end tracker balance ($)	52,659	324,363	369,299	397,382	(49,755)	241,051	1,060,837	224,198
Year-end tracker bal. as % of CIP expenditures	12.3%	87.5%	91.9%	104.9%	-15.2%	33.3%	165.2%	55.6%
CIP expenditures, excluding incentives ($)	427,847	370,570	401,694	378,793	327,380	724,644	642,143	403,118
Achieved first-year energy savings (Dth)	17,426	24,604	41,509	14,969	19,788	69,393	56,669	13,577
Average cost per Dth saved, excluding incentives ($/Dth)	24.55	15.06	9.68	25.31	16.54	10.44	11.33	29.69

[18] These figures are as initially proposed by Great Plains Natural Gas and are not adjusted for later decisions.