


Staff Briefing Papers

Meeting Date	April 1, 2019	Agenda Item *2
Company	Dakota Electric Association	
Docket No.	E-111/M-19-36	
	In the Matter of Dakota Electric Association 2019 Annual Resource and Tax Adjustment (RTA) Filing	
Issue/s	Should the Commission approve Dakota Electric Association's proposed 2019 RTA rates?	
Staff	Godwin Ubani	godwin.ubani@state.mn.us 651-201-2191

 Relevant Documents	Date
Dakota Electric Association – 2019 RTA Filing	January 9, 2019
Department of Commerce - Comments	February 25, 2019

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

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

I. Statement of the Issue

Should the Commission approve Dakota Electric Association's proposed 2019 RTA rates filing?

II. Introduction

Dakota Electric Association (DEA or the Association) purchases all of its energy supply from Great River Energy (GRE), a wholesale power supplier. The RTA mechanism is an automatic rate adjustment mechanism used to recover (or refund) power costs, demand-side management and conservation program costs,¹ and property tax costs² to the extent that they differ from what is recovered through base rates. DEA's annual rate adjustment coincides with the annual adjustment of wholesale power rates from GRE and the RTA calculation is based, in part, on a projected level of sales.

III. Relevant Statutes

Minn. Stat. § 216B.241, subd. 1b and 2b; Minn. Stat. §§ 216B.16, subd. 6; and Minn. Stat. § 216B.16, subd. 7

216B.241, subd. 1b. A generation and transmission cooperative electric association that provides energy services to cooperative electric associations that provide electric service at retail to consumers may invest in energy conservation improvements on behalf of the associations it serves and may fulfill the conservation, spending, reporting, and energy savings goals on an aggregate basis.

216B.241, subd. 2b. A public utility is eligible to petition the Commission for approval to include an automatic adjustment for real and personal property taxes....

216B.16, subd. 6. The Commission may permit a public utility to file for rate schedules providing for annual recovery of costs of energy conservation improvements.

216B.16, subd. 7, ... 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.

¹ Docket No. E-111/M-94-227, In the Matter of the Petition of Dakota Electric Association for Approval of an Annual Recovery Mechanism for Conservation Related Costs and Expenses and for Variance of Fuel Clause Adjustment Rules

² Docket No. E-111/M-95-1395, In the Matter of a Petition by Dakota Electric Association for Approval of a Property Tax Adjustment Rider and a Variance to Minn. Rules Regarding Automatic Adjustments and Billing Content

IV. Background

On January 9, 2019, DEA filed its petition requesting approval the Association's proposed Resource and Tax Adjustment for the year 2019.

On April 22, 1996 Commission authorized DEA to include an adjustment for property taxes in its annual rate adjustment filing.

Pursuant to the requirements in Dakota Electric's tariff, DEA has filed an RTA petition each year beginning in 1997.³ The Department has reviewed DEA's filing each year and the Commission has approved the RTA as filed.

The RTA has three components,⁴ which include the following:

- A cost of power adjustment;
- A demand-side management and conservation adjustment; and
- A real and personal property tax adjustment.

The RTA is calculated on a per-kWh basis and is based on a calendar year of January 1 to December 31. Any net credit or charge per kWh of the above noted adjustments would be reflected on customers' bills as a single line item labelled "Resource Tax Adjustment".⁵

Figure 1 adapted from DEA's Schedule A1:⁶ Dakota Electric Proposed 2019 RTA Adjustments Summary (\$/kWh)

Rate Class (A)	Power Cost Adjustment (B)	DSM & Conservation Adjustment (C)	Property & Real Estate Tax Adjustment (D)	Total Resource & Tax Adjustment [E = (B+C+D)]
31 Residential	\$0.0024	\$0.0001	\$0.0000	\$0.0025
32 Residential Demand Control	0.0024	0.0001	0.0000	0.0025
36 Irrigation - Firm	0.0024	0.0001	0.0000	0.0025
37 Irrigation - Interruptible	(0.0006)	0.0001	0.0000	(0.0005)
41 Small General Service	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 Control Energy Storage	0.0005	0.0001	0.0000	0.0006

³ 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.

⁴ DEA Petition 19-36, p. 1

⁵ Ibid. p. 2

⁶ Ibid. p. 4

Rate Class (A)	Power Cost Adjustment (B)	DSM & Conservation Adjustment (C)	Property & Real Estate Tax Adjustment (D)	Total Resource & Tax Adjustment [E = (B+C+D)]
52 Controlled Interruptible	0.0046	0.0001	0.0000	0.0047
53 Time of Day - Residential	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)

Figure 1 above (as adapted from DEA Schedule A1) summarizes DEA's proposed RTA by rate class for the calendar year January 1 to December 31, 2019.

In this current filing, DEA proposed total net RTA for 2019 of \$0.0025 per kWh for its residential customers, consisting of a power cost adjustment of \$0.0024 kWh, a DSM and conservation adjustment of \$0.0001 kWh and a property and real estate tax adjustment of \$0.0000 kWh. DEA's 2018 net RTA was \$0.0012 kWh⁷ for residential customers, and when compared to 2019, results in an increase in of \$0.0013 per kWh.

V. Parties' Comments

Power Cost Adjustment

Dakota Electric Association

DEA's yearly RTA is calculated based on a projected calendar year (January 1 to December 31st), which coincides with annual adjustment of wholesale power rates of Great River Energy, the wholesale supplier to DEA. The purchased power adjustment credit or charge that is reflected on customers' bills is the difference between the projected cost of power and DEA's approved base cost of power. After six months, DEA compares the projected power costs to actual and analyzes any resulting differences to determine whether any change in the power cost adjustment factor is needed to zero out the accumulated overage or under-recovery since January 1st.⁸

DEA noted that the accumulated power cost adjustment credit or charge is based on the projected level of sales which may vary from actual credit or charge resulting from actual sales.

DEA performs a true-up calculation at the end of the fiscal year to account for the difference, and thus deduct or add the net overage or under-recovery, to the amount of power cost to be recovered in the subsequent year.⁹

⁷ DEA Petition 18-44, p. 4

⁸ DEA Petition 19-36, p.1

⁹ Id.

Department of Commerce

The Department of Commerce, Division of Energy Resources (the Department) states that even though the power cost adjustment is recovered from members on a kWh basis; it is important to note that the adjustment is not the same for all members and rate classes. In fact, the power cost adjustment for non-interruptible members includes both energy and demand costs, whereas adjustment for members taking interruptible service includes energy costs only.¹⁰

The Department to verify the accuracy of DEA's true-up calculation for the power cost adjustment, requested electronic spreadsheets from DEA that support DEA's calculation.¹¹ The Department upon review of the spreadsheets agreed with DEA' calculation of its power cost adjustment.

Demand-Side Management and Conservation (DSM) Adjustment

Dakota Electric Association

Dakota Electric's conservation-cost adjustment is allowed under Minnesota Statutes section 216B.16, subdivision 6b, paragraph (c) and section 216B.241, subdivision 2b.

As depicted below in figures 2a and 2b, DEA proposed in its petition \$218,898 of DSM and conservation adjustment for 2019 including a \$33,331 under-recovery for 2018.

DEA's approved DSM and conservation spending additions from the previous calendar year are recovered from January 1 through December 31 of the next year. Dakota Electric calculates the conservation adjustment by dividing the recoverable conservation tracker balance by projected retail sales. DEA performs a true-up calculation at the end of the fiscal year to account for the difference between projected retail sales and actual sales and the net over-recovery or under-recovery is deducted from, or added to the next year's DSM and conservation balance to be recovered.¹²

¹⁰ The Department Comment, p. 3

¹¹ Ibid. p. 4

¹² DEA Petition 19-36, p. 1

Figure 2a adapted from DEA Schedule A3: DEA Projected DSM & Conservation Recovery Factor for Twelve Months Ending December 31, 2019

<i>DSM & Conservation Tracker Expenses in 2018</i>	<i>\$ 2,378,977</i>
<i>Recovery in Base Rates in 2018</i>	<i>(2,223,614)</i>
<i>Subtotal</i>	<i><u>155,363</u></i>
<i>Carrying Cost -2018</i>	<i><u>30,204</u></i>
<i>Tracker Additions in 2018</i>	<i><u>185,567</u></i>
<i>Cumulative True-Up (Over) / Under-Recovery at 12/31/18</i>	<i><u>33,331</u></i>
<i>Total to Recover in 2019</i>	<i><u>\$ 218,898</u></i>
<i>Projected Calendar Year 2019 kWh Sales</i>	<i><u>1,809,300,000</u></i>
<i>Tracker Account Recovery Factor per kWh</i>	<i><u>\$ 0.0001</u></i>

Figure 2b adapted from DEA Schedule A3: Projected Recovery Results

Month	Projected kWh Sales	Projected DSM & Conservation Recovery
January 2019	155,851,000	\$ 15,585
February 2019	137,025,000	13,703
March 2019	138,450,000	13,845
April 2019	127,754,000	12,775
May 2019	140,912,000	14,091
June 2019	166,534,000	16,653
July 2019	188,564,000	18,856
August 2019	180,004,000	18,000
September 2019	151,698,000	15,170
October 2019	133,655,000	13,366
November 2019	134,146,000	13,415
December 2019	154,716,000	15,472
Total kWh Sales	<u>1,809,300,000</u>	<u>\$ 180,931</u>
Total to Recover 2019		<u>(218,898)</u>
Net Projected Over/(Under) Recovery 12/31/2019		<u>\$ (37,967)</u>

Department of Commerce

The Department states that DEA's conservation-cost adjustment is allowed per the Minnesota statutes enunciated in the introduction section above. The Department noted that DEA computes the recovery factor by using the same kWh sales projections used for the purchased power cost adjustment factor. Further, the Department states that DEA's 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.

The Department noted that DEA expects to have an under-recovered balance of \$37,967 at the end of 2019.¹³ Thus, the Department requested from DEA electronic spreadsheets that supports DEA'S calculations and upon its review and analysis agreed with DEA's calculations.

Property and Real Estate Tax Recovery

Dakota Electric Association

DEA notes in the petition that prior to 2017, it was not permitted to include a property tax adjustment within the Resource and Tax Adjustment, if the Association's energy conservation program spending fell below 1.75% of gross operating revenue.¹⁴ The passage of Minnesota Statute 216B.1647¹⁵ in the 2016 Minnesota Legislative Session removed this spending requirement. The property tax adjustment is no longer tied to meeting a threshold for spending on CIP (Conservation Improvement Programs) programs.¹⁶

DEA's computation of property and real estate tax recovery factor is based on projected sales for the calendar year ending December 31, 2019, and estimated property and real estate tax payable during calendar 2019.¹⁷ 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 past year.

Department of Commerce

The Department notes that DEA 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. To arrive at the adjustment for each rate class, DEA divides the allocated amounts by projected rate class retail energy sales.

As was the case in the prior two components of RTA discussed above the Department also requested for electronic spreadsheets for review regarding the correctness of DEA's true-up computations for personal property tax adjustment. The department upon its review of the electronic spreadsheets expressed agreement with DEA true-up calculations.

¹³ The Department Comment, p. 5

¹⁴ DEA Petition. P.1

¹⁵ Minnesota Statute 216B.1647 states that 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.

¹⁶ DEA Petition. P.1

¹⁷ Ibid., p. 3, See also DEA's Schedule A4-3

VI. Staff Analysis

Dakota Electric has filed RTA petition each year since 1997, in accordance with its RTA tariff. In the instant case, the RTA petition shows that DEA calculated the proposed RTA on a per-kWh basis for projected calendar year 2019, ending on December 31st. The RTA has three components, namely a power cost adjustment, a demand-side management (DSM) and conservation adjustment and a property and real estate tax adjustment.

The Department requested from DEA supporting documentation for its calculations of the three components of this year's proposed RTA. The Department reviewed the electronic spreadsheets supporting the Association's calculations and concluded that Dakota Electric's calculations for the power cost adjustment, DSM and conservation adjustment and property and real estate tax adjustment are correct and appropriate. The Commission's approval of DEA 2019 RTA factors is recommended by the Department.¹⁸

Staff agrees with the Department's analysis as depicted in figure 1 of this paper. Staff reviewed and recalculated for residential customers, DEA's proposed 2019 total net RTA of \$0.0025 per kWh, comprising of a power cost adjustment of \$0.0024 per kWh, a DSM and conservation adjustment of \$0.0001 kWh and a property and real estate tax adjustment of \$0.0000 kWh.

DEA's 2018 net RTA was \$0.0012 kWh for residential customers, and when compared to 2019, results in an increase in the proposal of \$0.0013 per kWh. Staff's review agrees with DEA's calculations. The \$0.0013 per kWh increase represent a change from \$0.0012 in 2018 to \$0.0025 in 2019, which translates to a 108% jump in 2019. The effect of this increase on an average residential customer's monthly bill would be an additional charge of about \$1.00 per month in 2019.¹⁹

Further, staff reviewed DEA's calculation for its DSM and conservation adjustment as depicted in figures 2a and 2b above and agrees that DEA's calculations are correct.

VII. Decision Options

1. Approve Dakota Electric Association's proposed 2019 RTA rates (DOC, Staff). or
2. Do not approve Dakota Association's proposed 2019 RTA rates.

¹⁸ The Department Comments, p. 6

¹⁹ DEA Circuits Monthly Newsletter, p.7