

Staff Briefing Papers

Meeting Date	June 18, 2020	Agenda Item 2*
Company	Dakota Electric Association	
Docket Nos.	E-999/AA-19-402 In the Matter of the Review of the 2018-2019 Annual Automatic Adjustment for Dakota Electric Association E-111/M-20-79 In the Matter of Dakota Electric Association's 2020 Annual Resource and Tax Adjustment	
Issues	<ol style="list-style-type: none">1. Should the Commission accept Dakota Electric's 2018-2019 Annual Automatic Adjustment (AAA) Report?2. Should the Commission approve a variance to Minnesota Rules to allow Dakota Electric to file future AAA reports with the annual RTA filing?3. Should the Commission approve Dakota's proposed 2020 RTA factors?	
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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.

 **Relevant Documents****Date****Docket No. E-111/M-20-79**

Dakota Electric Association – Initial Filing (Non-Public)	January 15, 2020
Minnesota Department of Commerce, Division of Energy Resources (Non-Public)	March 9, 2020

Docket No. E-999/AA-19-402

Dakota Electric Association – Initial Filing (Non-Public)	August 28, 2019
Minnesota Department of Commerce, Division of Energy Resources	January 14, 2020
Dakota Electric Association – Reply Comments	January 23, 2020

I. Statement of the Issues

1. Should the Commission accept Dakota Electric's 2018-2019 Annual Automatic Adjustment Report?
2. Should the Commission approve a variance to Minnesota Rules to allow Dakota Electric to file future AAA reports with the annual RTA filing?
3. Should the Commission approve Dakota's proposed 2020 RTA factors?

II. Background

A. Dakota Electric's Annual Automatic Adjustment of Charges Report – Docket No. E-999/AA-19-402

On August 28, 2019, Dakota Electric Association (Dakota Electric or the Company) made a filing in Docket No. E-999/AA-19-402 in accordance with Minnesota Rules 7825.2800-7825.2840, which requires that all public utilities make a filing by September 1 of each year to reflect changes in their annual automatic adjustment of charges (AAA) or fuel clause adjustment (FCA) riders.

Dakota Electric was the only electric utility to make a filing by September 1, 2019, containing AAA and FCA information for the July 2018 – June 2019 (FYE19) reporting period. Given the January 1, 2020 implementation date of the new FCA reform process established in Docket No. E-999/CI-03-802, the Minnesota Public Utilities Commission's (Commission) December 12, 2018 Order permitted Minnesota's other regulated electric utilities, which include Northern States Power Company d/b/a Xcel Energy, Minnesota Power, and Otter Tail Power Company, to submit the previous fuel clause adjustment information (FYE19 AAA reports) by March 1, 2020, while extending the covered period to December 31, 2019. Dakota Electric was not included in the FCA reform, and was thus required to make the September 1, 2019 filing.

Since Dakota Electric is an electric distribution-only cooperative, it was exempt from many of the compliance filings required under the old FCA process. For example, since Dakota Electric is neither a transmission nor a generation owner, it is not required to submit any information regarding Midcontinent Independent System Operator (MISO) activities. In addition, Dakota Electric has few choices regarding its fuel and purchased power and associated costs.

On January 14, 2020, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed a letter noting that Dakota Electric is already required to make a filing in January of each year detailing its purchased energy costs, which the Company generally refers to as its Annual Resource and Tax Adjustment (RTA) filing. Moreover, Dakota Electric's RTA filings and resulting RTA factors are reviewed by the Department each year and approved by the Commission.

As a result, the Department generally conducted a limited review of Dakota's AAA filings in past proceedings, other than including Dakota's information in the larger report that focused primarily on Minnesota's vertically integrated, investor-owned utilities.

B. Dakota Electric's Resource and Tax Adjustment – Docket No. E-111/M-20-79

On January 15, 2020, Dakota Electric filed a petition in Docket No. E-111/M-20-79 requesting approval of its proposed Resource and Tax Adjustment (RTA) for the year 2020 (2020 RTA).

On January 23, 2020, Dakota Electric filed comments in Docket No. E-999/AA-19-402 agreeing with the Department's recommendation to address the Company's FYE19 AAA filing in conjunction with its 2020 RTA filing.

On March 9, 2020, the Department submitted Comments and recommended Commission approval of the Dakota Electric' 2020 RTA rates filing.

C. Relevant Statutes

Minn. Stat. § 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.

Minn. Stat. § 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....

Minn. Stat. § 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.

Minn. Stat. § 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.

III. Annual Automatic Adjustment Report

A. The Department

The Department notes that Dakota Electric is the only Minnesota rate-regulated electric utility required to make the September 1, 2019 filing for the FYE19 reporting period.

The Department states that there is little to gain from having Dakota Electric continue to submit annual FCA costs in September AAA filings and in the annual RTA filings. Given that the RTA filings are where Dakota Electric's fuel clause rates are set for the year, the Department recommends that the Commission require the Company to provide its AAA filing information in its annual RTA filings.

The Department states that it will conduct the necessary reviews of such information in conjunction with its review of Dakota's annual RTA filings. The Department notes that this

approach would provide a more streamlined and efficient process for reviewing Dakota Electric's annual purchased energy costs.¹

The Department reviewed Dakota Electric's AAA report and found that Dakota Electric complied with the various rules and Commission orders. In addition, the Department found Dakota Electric's FYE19 fuel costs and five-year fuel cost projections to be reasonable. Overall, the Department recommends that the Commission accept Dakota Electric's FYE19 AAA filing.

B. Dakota Electric

Dakota Electric stated that it concurs with the Department's observations and recommendation. Specifically, Dakota Electric agrees to provide the following information in future RTA filings (beginning in January 2021) RTA filings the following information from Minnesota Rules 7825.2800-7825.2840:

7825.2800 ANNUAL REPORTS; POLICIES AND ACTIONS.

Review the procurement policies for selecting sources of fuel and energy purchased, and a summary of actions taken to minimize cost.

7825.2820 ANNUAL AUDITOR'S REPORT.

An independent auditor's report evaluating accounting for automatic adjustments for an appropriate 12-month period.

7825.2830 ANNUAL FIVE-YEAR PROJECTION.

A five-year projection of fuel costs by energy source by month for the first two years and on an annual basis thereafter.

7825.2840 ANNUAL NOTICE OF REPORTS AVAILABILITY.

Provide notice of the availability of this information to all intervenors in the previous two general rate cases.

Dakota Electric noted that the information required by Minnesota Rule 7825.2810, Annual Report; Automatic Adjustment Charges, is already covered by Dakota Electric's RTA filing. Dakota Electric agrees that this approach will provide a more streamlined and efficient process for reviewing the Company's annual purchased energy costs.

C. PUC Staff Analysis

Staff agrees with the Department's recommendation to require Dakota Electric to file its AAA report with its annual RTA docket. However, staff notes that Minnesota Rules require Dakota Electric to make its AAA filing on September 1 of each year. Therefore, the Commission needs to approve a rule variance should it wish to approve the Department's recommendation.

¹ Dakota Electric filed its 2020 RTA petition on January 15, 2020 in Docket No. E-111/M-20-79.

Specifically, the Commission would need to grant a variance to Minn. R. 7825.2800 through 7825.2840 to allow Dakota Electric to submit its AAA and FCA rider information in future RTA petitions.

Staff notes that under Minn. R. 7829.3200, the Commission may vary any of its rules upon making the following findings:

- A. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;

Continued current operation of the AAA imposes an excessive burden on Dakota Electric, the Department, Commission and other interested parties, since, the Company would be required to file its AAA report and the Department would be required to respond using valuable resources better utilized in other pursuits. The Department's recommendation that Dakota Electric be required to file its AAA report with its annual RTA filing is a better use of agency resources.

- B. Granting the variance would not adversely affect the public interest; and

Public interest would not be adversely affected because Dakota Electric would continue to file its AAA reports but in a more efficient use of resources whereby both the Company and the Department and Commission will consider the requests in a different annually filed docket.

- C. Granting the variance would not conflict with standards imposed by law.

Granting the variance would not conflict with the standards imposed by law. Under the Department's recommendation, Dakota Electric would continue to file the required information in the Company's annual RTA filing.

Staff notes that should the Commission approve the variance to Minnesota Rules to allow Dakota Electric to file its AAA report in the annual RTA docket that the Company would continue to file on a fiscal year basis (i.e., July 1st – June 30th)

IV. Resource and Tax Adjustment

A. Introduction

Dakota Electric Association obtains its energy supply from its wholesale power supplier Great River Energy. The RTA mechanism is used as an automatic adjustment to recover (or refund) power costs, demand-side management and conservation program costs,² and property tax costs³ to the extent that they differ from what is recovered through base rates.

Dakota Electric's annual adjustment coincides with the annual adjustment of wholesale power rates and the RTA calculation is based, in part, on a projected level of sales. The RTA is a long-standing per-kilowatt-hour (per-kWh) surcharge (or credit) that recovers or refunds incremental changes in three types of costs: purchased power costs, conservation costs, and property taxes.

In this filing, Dakota Electric seeks Commission approval of its proposed 2020 RTA rates. Dakota Electric is a distribution-only cooperative that is neither an electricity generation nor transmission owner.

Also in this filing and beginning in 2020 Dakota Electric included recovery of load control receivers (LCRs) related to Advanced Grid Infrastructure (AGI) project as part of conservation tracker of the RTA rates.⁴

B. Background

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

Pursuant to the requirements in Dakota Electric's tariff, it has filed an RTA petition each year beginning in 1997.⁵ The Department has reviewed Dakota Electric's filing each year and the Commission has approved the RTA as filed.

Figure 1 below shows Dakota Electric's proposed adjustments for the current year.

The RTA has three components, which include the following:

- A cost of power adjustment;

² 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.

³ 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.

⁴ Dakota Electric's Petition, p.1.

⁵ 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.

- 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".⁶

Figure 1 adapted from Dakota Electric's Schedule A1⁷ Dakota Electric Proposed 2020 RTA Adjustments Summary (\$/kWh)

Rate Class (A)	Base Cost of Power (B)	Power Cost Adj. [C]	DSM & Cons. Adj. (D)	Property & Real Estate Tax (E)	Total RTA F=C+D+E (F)	Total Base Cost of Power w/RTA G=B+F
31 Residential	\$0.0903	\$0.0035	\$0.0002	(\$0.0001)	\$0.0036	\$0.0936
32 Residl Dem Ctrl	0.0903	0.0035	0.0002	(0.0001)	0.0036	0.0936
36 Irriga-Firm	0.0903	0.0035	0.0002	(0.0001)	0.0036	0.0936
37 Irriga-Interrupt	0.0497	(0.0015)	0.0002	(0.0001)	(0.0014)	0.0483
41 Small Gen Service	0.0903	0.0035	0.0002	(0.0001)	0.0036	0.0936
44 Street Lights	0.0903	0.0035	0.0002	(0.0002)	0.0035	0.0935
46 Gen Service	0.0903	0.0035	0.0002	(0.0001)	0.0036	0.0936
49 Geother Heat Pump	0.0775	0.0008	0.0002	(0.0001)	0.0009	0.0784
51 Ctrl Ergy Storage	0.0200	0.0030	0.0002	(0.0001)	0.0031	0.0231
52 Contrl Interrupt	0.0305	0.0062	0,0002	(0.0001)	0.0063	0.0368
53 Time of Day-Residl	0.0903	0.0035	0.0002	(0.0001)	0.0036	0.0936
54 Time of Day-Gen Service	0.0903	0.0035	0.0002	(0.0001)	0.0036	0.0936
70 Interrupt Option-Full	0.0497	(0.0015)	0.0002	(0.0001)	(0.0014)	0.0483
71 Interrupt Option-Partial	0.0497	(0.0015)	0,0002	(0.0001)	(0.0014)	0.0483

Figure 1 above summarizes Dakota Electric proposed RTA by rate class for the calendar year January 1 to December 31, 2020. In this current filing Dakota Electric proposed total net RTA for 2020 of \$0.0036 per kWh for its residential customers, consisting of power cost adjustment of \$0.0035 per kWh, a DSM and conservation adjustment of \$0.0002 per kWh and a property and real estate tax adjustment of (\$0.0001) per kWh. From the figure above it appears that the base cost of power increase is \$0.0939 per kWh in current filing. This is approximately 4% increase over the base cost pf power already in the existing Dakota Electric's rate case.

⁶ Dakota Electric's Petition, p.1.

⁷ Dakota Electric Petition, Schedule A1.

C. Power Cost Adjustment

1. Dakota Electric Association

Dakota Electric calculates yearly RTA on a projected calendar year basis (January 1 to December 31), which coincides with annual adjustment of wholesale power rates of Great River Energy, the wholesale supplier to Dakota Electric. The purchased power adjustment credit or charge that is reflected on customers' bills is the difference between the projected cost of power and Dakota Electric's approved base cost of power. After six months, Dakota Electric 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 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.

Dakota Electric 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

2. Department

The Department states that even though power cost adjustment is recovered from members on a kWh basis, the adjustment is not the same for all members and rate classes. In fact, the power cost adjustment for most members includes both energy and demand costs, whereas adjustment for members taking interruptible service includes energy costs only. Further, the base cost of energy changes according to the type of service in question.

The Department reviewed Dakota Electric's true-up calculation and notes that the calculation is correct. Also the Department opines that it is appropriate for Dakota Electric to recover the difference between its base cost of energy and wholesale power costs through the power cost adjustment.

D. Demand-Side Management and Conservation (DSM) Adjustment

1. 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.

In the DSM part of its adjustment, Dakota Electric includes approved DSM and Conservation spending additions from the previous calendar year from January 1 through December 31 in the next year's adjustment. Dakota Electric calculates the conservation adjustment by dividing the recoverable conservation tracker balance by projected retail sales. Dakota Electric performs a true-up calculation at the end of the fiscal year to account for the difference between projected

⁸ Dakota Electric's Petition, p. 1.

⁹ The Department's Comments, p. 9.

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.¹⁰

Also, Dakota Electric notes that beginning in 2020 Load Control Receivers (LCRs) related to its Advanced Grid Infrastructure (AGi) project are included in DSM and Conservation cost recovery. Thus, AGi LCRs recovery emanates from LCRs in service by January 1, 2020 and forecasted LCR additions for the remainder of year 2020. Any net over-recovery or under-recovery will be trued-up in future annual filings as the project advances.

As depicted below in figures 2a and 2b, Dakota Electric proposed in its petition \$389,404 of DSM and conservation adjustment for 2019 including a \$69,082 cumulative true-up under-recovery for 2019.

Additionally, the below figure shows Dakota Electric expects at the end of year 2020, an under-recovery balance of \$25,776.

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

DSM & Conservation Tracker Expenses in 2019 (including AGi-LCRs of \$232,822) ¹¹	\$ 2,464,298
Recovery in Base Rates in 2019	<u>(2,142,947)</u>
Subtotal	\$321,352
Carrying Cost -2019	<u>(1,030)</u>
Tracker Additions in 2019	\$320,322
Cumulative True-Up (Over) / Under-Recovery at 12/31/19	<u>69,082</u>
Total to Recover in 2020	<u>\$389,404</u>
Projected Calendar Year 2019 kWh Sales	<u>1,818,143,000</u>
Tracker Account Recovery Factor per kWh	\$ 0.0002

¹⁰ Dakota Electric's Petition, p. 1

¹¹ Dakota Electric's Petition, Schedule E

Figure 2b adapted from Dakota Electric Schedule A3: Projected Recovery Results

Month	Projected kWh Sales	Projected DSM & Conservation Recovery
January 2020	155,289,000	\$ 31,058
February 2020	137,185,000	21,437
March 2020	138,512,000	27,702
April 2020	127,737,000	25,547
May 2020	140,156,000	28,031
June 2020	166,578,000	33,316
July 2020	192,413,000	38,483
August 2020	179,475,000	35,895
September 2020	154,344,000	30,869
October 2020	134,461,000	26,892
November 2020	136,876,000	27,375
December 2020	155,117,000	31,023
Total kWh Sales	1,818,143,000	\$363,628
Total to Recover in 2020		(389,404)
Net Projected Over/(Under) Recovery 12/31/2020		<u>(25,776)</u>

2. The Department

The Department notes that Dakota Electric was authorized by the Commission in its May 8, 2018 Order Approving Recovery of Grid Modernization Costs (May 8, 2018 Order)¹² to recover capital costs related to new load control receivers through the conservation component of its RTA.¹³ Thus, according to this Commission's May 8, 2018 Order, Dakota Electric for the first time and in the present petition included forecasted 2020 capital costs of its Advanced Grid Infrastructure for new load control receivers.¹⁴

Further, the Department reviewed the calculation of the DSM and conservation adjustment as offered by Dakota Electric and affirms the calculation as accurate.¹⁵ Accordingly, the Department holds that the DSM and conservation adjustment proposed by Dakota Electric is reasonable.

¹² *In the Matter of Dakota Electric Association's Petition to Implement Tracker Recovery for Advanced Grid Infrastructure Investments*, Docket No. E-111/M-17-821

¹³ The Department's Comments, p. 10.

¹⁴ *Ibid.*

¹⁵ The Department's Comments, p. 10.

E. Property and Real Estate Tax Recovery

1. Dakota Electric Association

Dakota Electric 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 its energy conservation program spending fell below 1.75% of gross operating revenue.¹⁶ However, the passage of Minnesota Statute 216B.1647 in the 2016 Minnesota Legislative Session removed this spending requirement.¹⁷ Thus Dakota Electric is able to request for Commission approval for adjustment of real and property taxes in annual RTA filing. The property tax adjustment is no longer tied to meeting a threshold for spending on CIP (Conservation Improvement Programs) programs.

Depicted below in figures 3a and 3b, Dakota Electric proposed in its petition a \$(111,107) credit for the Property and Real Estate tax adjustment for 2020 including a \$77,586 cumulative true-up under-recovery for 2019.

Figure 3a adapted from Dakota Electric Schedule A4-1: DEA Projected Property & Real Estate Recovery Factor for Twelve Months Ending December 31, 2020

Estimated 2020 Real & Personal Property Taxes 2019 taxes (payable in 2020)	\$3,265,779
Projected 2020 Recovery in Base Rates	<u>(3,454,472)</u>
Projected 2020 (Over) / Under-Recovery in Base Rates	<u>\$(188,693)</u>
Cumulative True-Up (Over) / Under-Recovery at 12/31/2019	<u>77,586</u>
Recoverable Balance for 2020	\$ (111,107)
Projected Calendar Year 2020 kWh Sales	<u>1,818,143,000</u>
Average Property & Real Estate Tax Recovery	<u>\$(0.00010)</u>

¹⁶ Dakota Electric's Petition, p.1.

¹⁷ 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.

Figure 3b adapted from Dakota Electric Schedule A4-1: Projected Property and Real Estate Tax

<u>Month</u>	<u>Projected kWh Sales</u>	<u>Projected Property & Real Estate Tax Recovery</u>
Jan-20	155,289,000	\$ (15,529)
Feb-20	137,185,000	(13,719)
Mar-20	138,512,000	(13,851)
Apr-20	127,737,000	(12,774)
May-20	140,156,000	(14,016)
Jun-20	166,578,000	(16,658)
Jul-20	192,413,000	(19,241)
Aug-20	179,475,000	(17,948)
Sep-20	154,344,000	(15,434)
Oct-20	134,461,000	(13,446)
Nov-20	136,876,000	(13,688)
Dec-20	<u>155,117,000</u>	<u>(15,512)</u>
Total kWh Sales	1,818,143,000	<u>\$ (181,816)</u>
Recoverable balance for 2020		<u>(111,107)</u>
Net Projected Over/ (Under) Recovery at 12/21/2020		\$ (70,709)

Dakota Electric's computation of property and real estate tax recovery factor is based on projected sales for the calendar year ending December 31, 2020, and estimated property and real estate tax payable during calendar 2020.¹⁸ 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.

2. The Department

The Department notes that Dakota Electric calculates its property and real estate 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.¹⁹ To arrive at the adjustment for each rate class, Dakota Electric 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 reviewed the correctness of DEA's true-up computations for personal property tax adjustment, and based on results of the review, the Department agreed with Dakota Electric' true-up calculations.²⁰

¹⁸ Dakota Electric's Petition, p. 3, See also Schedule A4-3.

¹⁹The Department's Comments, p. 11.

²⁰ Ibid.

F. Compliance with Previous Commission Orders

The Department also reviewed Dakota Electric's compliance with the Commission's April 22, 1996 Order Approving Property Tax Adjustment Rider As Modified And Granting Variances (April 22, 1996 Order) which required DEA to provide the following information as part of its future RTA filings:²¹

- 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.

According to the Department, Dakota Electric submitted the required information to enable review. Thus:

The Department also reviewed DEA's 2020 RTA to ensure that it preserved the existing rate design. In Docket No. E-111/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. E-111/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.²²

The Department holds that by virtue of its review as noted above, Dakota Electric complied with the Commission's April 22, 1996 Order.²³

G. PUC Staff Analysis

Dakota Electric has filed an RTA petition each year since 1997, in accordance with its RTA tariff.

In the instant case, the RTA petition shows that Dakota Electric calculated the proposed RTA on a per-kWh basis for projected calendar year 2020, ending on December 31st. The RTA has three components, namely a power cost adjustment, a demand-side management (DSM) and conservation adjustment (including AGI LCR) and a property and real estate tax adjustment.

The Department reviewed DEA supporting documentation for its calculations of the three components of this year's proposed RTA. The Department reviewed the 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

²¹ *In the Matter of a Petition by Dakota Electric Association for Approval of a Property Tax Adjustment Rider and a Variance to Minnesota Rules Regarding Automatic Adjustments and Billing Content*, Docket No. E111/M-95-1395

²²The Department's Comments, p. 11.

²³ *Id.*, at p. 12.

appropriate. The Department recommends Commission's approval of Dakota Electric's 2020 RTA factors.²⁴

Staff agrees with the Department's analysis as depicted in figure 1 of this paper. Staff reviewed and recalculated DEA's proposed 2020 total net RTA for residential customers of \$0.0036 per kWh, comprising of a power cost adjustment of \$0.0035 per kWh, a DSM and conservation adjustment of \$0.0002 kWh and a property and real estate tax adjustment of (\$0.0001) kWh.

Dakota Electric's 2019 RTA was \$0.0025 per kWh for residential customers. When compared to 2020 RTA of \$0.0036 per kWh, this results in an increase of \$0.0011 per kWh.

Staff's review agrees with DEA's calculations. The \$0.0011 per kWh (RTA 12/31/2020 of \$0.0036 v. RTA 12/31/2019 of \$0.0025) increase represents a 44% jump from 2019 RTA. Also, Staff notes that 2018 RTA was \$0.0012 per kWh and 2019 RTA shows \$0.0025 for a net increase of \$0.0013 per kWh, which Dakota Electric at the time indicated increased residential customer bill about \$1.00 per month over 2018 bill.

Similarly, in this current case, the \$0.0011 per kWh increase for Calendar year 2020 over year 2019 results in an increase of \$0.80 per month additional charge on the average residential customer's bill, as was inferred by Dakota Electric its monthly newsletter.²⁵

Further, in staff continuing analysis the \$0.80 RTA increase is spread amongst RTA components –power cost \$0.78, DSM and Conservation recovery \$.04 and Property and R/E tax (\$.02) in the figure 4 below:

²⁴The Department's Comments, p.12.

²⁵ Dakota Electric's Circuit Monthly Newsletter, February 2020, p. 7:

2020 Resource & Tax Adjustment

The Resource and Tax Adjustment (RTA) charge will increase on most members' bills in 2020.

How much is the increase?

For residential members, the 2020 RTA charge will be \$0.0036 per kilowatt-hour, which is \$0.0011 higher than December 2019. This will increase the average residential member's bill by less than 80 cents per month. Commercial accounts should contact an account representative to discuss the RTA charge for their rate class.

What is the RTA?

Dakota Electric uses the RTA to adjust prices according to changes in wholesale power cost, property and real estate taxes and conservation spending. The charge is a direct pass-through of costs and is reviewed by the Minnesota Public Utilities Commission.

Figure 4: Distribution of Equivalent net RTA of \$0.0011 per kWh, an Increase of \$0.80/Month on Residential Customer Bill in 2020

RTA Components	Adjustment Per kWh (\$)	% of net RTA	Monthly Amount of Increase per RTA Component
Power Cost	0.0035	97%	\$0.78
DSM & Conservation	0.0002	6%	\$0.04
Property & R/E Tax	(0.0001)	(3%)	\$(0.02)
Total	0.0036	100%	\$0.80

Figure 5 below indicates some relevant ratios relating RTA Components to Dakota Electric's Base Rate Operating Revenue information:

Figure 5: Dakota Electric RTA Components Recovery Ratios

RTA Items	RTA Recovery 2020 Amounts ²⁶ (B)	Amount of 2020 Costs Included in Base Rates (C)	% of Cost Recovery D = (B/C)
1. Purchase Power Cost	\$527,623	\$150,749,644	.0035%
2. DSM & Conservation	389,404	2,464,298	15.80%
3. Prop & R/E Tax	(111,707)	3,550,790	(3.16%)
Rate Case Costs Subject to RTA	Amount of 2020 Costs Included in Base Rates	DEA Total Base Rate 2020 Test-Year Operating Revenue	% of Base Rate Test Year Operating Revenue
4. Purchase Power Cost	\$150,749,644 ²⁷	\$201,729,710 ²⁸	75%
5. DSM & Conservation	2,464,298	201,729,710	1%
6. Prop & R/E Tax	3,550,790 ²⁹	201,729,710	2%

²⁶ Dakota Electric's Petition, Schedule A3 and Schedule A4-1, Docket No. E-111/M-20-79

²⁷ Dakota Electric's Rate Case, Compliance Filing of April 24, 2020, Docket No. E-111/GR-19-478, Statement of Operations, Present Rates, Test Year – 2018 Historical Adjusted, Ex-DEA-1, p.1 of 22, line 6.

²⁸ Dakota Electric's Rate Case, Compliance Filing of April 24, 2020, Docket No. E-111/GR-19-478, Statement of Operations, Present Rates, Test Year – 2018 Historical Adjusted, Ex-DEA-1, p.1 of 22, line 4.

²⁹ Dakota Electric's Rate Case, Compliance Filing of April 24, 2020, Docket No. E-111/GR-19-478, Statement of Operations, Present Rates, Test Year – 2018 Historical Adjusted, Ex-DEA-1, p.1 of 22, line 15.

The analysis in figure 5 above shows that the RTA 2020 costs for power cost represent 75% of the entire base rate operating revenue from Dakota Electric's recently filed rate case. While DSM and Conservation Recovery constitutes only 1% of base rate operating revenue in recently filed rate case. Also, Property and Real Estate tax uses only 2% of base rate operating revenue. A review of Dakota Electric's Audit report notes disclosed that cost of power uses 73%³⁰ of revenues and property taxes/Real Estate tax uses 2%³¹ of revenue, these disclosure closely approximate the Power Cost and Property and R/E tax percentages of 75% and 2%, respectively in figure 5 above.

Staff finds the Department analysis to be comprehensive and thorough. Further, staff reviewed Dakota Electric's calculation for its DSM and conservation and Property and Real Estate tax adjustments as depicted in figures 2a, 2b, 3a and 3b above and agrees the calculations are correct and therefore concludes Dakota Electric petition for approval of its 2020 RTA rates reasonable.

V. Decision Alternatives

1. Approve the Department's recommendation that the Commission accept Dakota's FYE19 Annual Automatic Adjustment (AAA) filing. (Department, Dakota Electric)
2. Approve Dakota Electric's proposed 2020 Resource and Tax Adjustment (RTA) factors. (Department, Dakota Electric)
3. Approve a variance to Minn. R. 7825.2800 through 7825.2840 to allow Dakota Electric to submit its Annual Automatic Adjustment (AAA) reports and Fuel Clause Adjustment (FCA) rider information in future RTA petitions. Require Dakota Electric to continue to use a fiscal year (i.e., July 1st – June 30th) for its AAA and FCA rider reporting periods. (Staff)

³⁰ Dakota Electric's Rate Case Filing, Audited 2018 Financials and 2018 Annual Report, Work Paper 2, p. 23 of 23.

³¹ Ibid.