Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: October 30, 2014 .... **Agenda Item **#10**

Company: Great Plains Natural Gas Company (Great Plains, the Company)

Docket No. G**-004/M-14-358**

In the Matter of Great Plain's 2013 Demand Side Management Financial Incentives and Annual Filing to Update the CIP Rider

Issue(s):

1. Should the Commission approve Great Plain's 2013 CIP tracker account?

2. Should the Commission approve an incentive of $24,137 for Great Plain's 2013 CIP achievements?

3. At what level should the Commission set the conservation cost recovery adjustment (CCRA) for 2014/2015?

4. Should the Commission eliminate the carrying charge or otherwise modify its application to Great Plain's tracker balance for the CIP rider effective with the date of the Commission's Order?

5. Should the Commission approve Great Plain's proposed bill message for publication in the billing month immediately following the date of the Order in this docket with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

Staff: Marc Fournier 651-201-2214

Relevant Documents

Initial Filing Great Plains .... April 30, 2014

Comments of the Department of Commerce,
Division of Energy Resources (DOC) .... July 14, 2014

Reply Comments Great Plains .... July 24, 2014

Reply Comments of the Department of Commerce,
Division of Energy Resources .... August 29, 2014

Commission Order Approving Financial Incentive,
Setting Conservation Cost Recovery Adjustment,
Reducing Carrying Charges, and Varying Rules
Docket No. E-017/M-14-201 .... September 26, 2014

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(s)

1. Should the Commission approve Great Plain's 2013 CIP tracker account?

2. Should the Commission approve an incentive of $24,137 for Great Plain's 2013 CIP achievements?

3. At what level should the Commission set the conservation cost recovery adjustment (CCRA) for 2014/2015?

4. Should the Commission eliminate the carrying charge or otherwise modify its application to Great Plain's tracker balance for the CIP rider effective with the date of the Commission's Order?

5. Should the Commission approve Great Plain's proposed bill message for publication in the billing month immediately following the date of the Order in this docket with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

Minn. Stat. § 216B.16, subd. 6c.

Incentive plan for energy conservation improvement. (a) The commission may order public utilities to develop and submit for commission approval incentive plans that describe the method of recovery and accounting for utility conservation expenditures and savings. In developing the incentive plans the commission shall ensure the effective involvement of interested parties.

(b) In approving incentive plans, the commission shall consider:

(1) whether the plan is likely to increase utility investment in cost-effective energy conservation;

(2) whether the plan is compatible with the interest of utility ratepayers and other interested parties;

(3) whether the plan links the incentive to the utility's performance in achieving cost-effective conservation; and

(4) whether the plan is in conflict with other provisions of this chapter.

(c) The commission may set rates to encourage the vigorous and effective implementation of utility conservation programs. The commission may:

(1) increase or decrease any otherwise allowed rate of return on net investment based upon the utility's skill, efforts, and success in conserving energy;

(2) share between ratepayers and utilities the net savings resulting from energy conservation programs to the extent justified by the utility's skill, efforts, and success in conserving energy; and

(3) adopt any mechanism that satisfies the criteria of this subdivision, such that implementation of cost-effective conservation is a preferred resource choice for the public utility considering the impact of conservation on earnings of the public utility.

The Conservation Improvement Project Rider was submitted in accordance with the Miscellaneous Tariff rules.

II. Background

On May 1, 2014, Great Plains (Great Plains or the Company) filed a petition requesting approval of its 2013 natural gas CIP (Conservation Improvement Program) Tracker Account, Financial Incentive on 2013 Performance of $24,137, and a proposed decrease in the 2014/2015 Gas Conservation Cost Recovery Adjustment (CCRA). The Petition includes a report of proposed recoveries and expenditures in Great Plain's gas CIP tracker account during 2013, a proposed change in the currently approved gas CCRA, and a proposed incentive for its 2013 CIP achievements.

Comments were filed by the Minnesota Department of Commerce (DOC) on July 14, 2014.

On July 24, 2014, reply comments were filed by Great Plains. The DOC filed reply comments on August 29, 2014.

Below are the DSM financial incentives 2009 to 2013 for the Minnesota gas utilities filing for DSM incentives:

DSM Financial Incentives 2009-2013

	2009	2010	2011	2012	2013
Xcel	$965,307	$2,264,511	$2,833,206	$2,682,879	$5,416,936
Center Point Energy	$1,394,200	$3,933,921	$4,590,392	$3,207,411	$10,890,131
Great Plains	$0	$18,915	$37,707	$114,763	$24,137
Interstate Power	$86,463	$85,716	$15,349	$20,097	$37,207
Minnesota Energy Resources Corp.	$582,288	$2,292,375	$2,587,948	$2,729,531	$2,492,730

III. Parties' Positions

Great Plains: Great Plains pointed out that it agrees with the DOC's recommendations regarding the following issues:

1. approve the 2013 CIP tracker account, as provided in the Company's Petition and summarized by the DOC's Comments with an ending balance of $397,382;

2. approve the proposed 2013 DSM financial incentive of $24,137; and

3. approve the proposed CCRA of $0.0747 per Dth for all customer classes.

With respect to carrying charges, the timing difference between cost incurrence and cost recovery is the principal reason to apply carrying changes in the first instance and is intended to protect both the utility and its customers. In fact, one result of the Department's recommendation that the application of all carrying charges should be discontinued is that customers would no longer be made whole (inclusive of the time-value of money) when there is an over recovery in the tracker account, which can, and likely will, occur once the recovery of CIP costs catches up with recent increases in CIP expenditures. The application of carrying charges symmetrically is fair and merely ensures that both the Company and customers are made whole.

The same symmetry is arguably not applicable to carrying changes applied to a DSM incentive. For this reason, Great Plains does not object to the Department's recommendation to disallow carrying charges on the Company's financial incentive on a prospective basis.

DOC: The DOC recommends that the Commission:

1. approve Great Plains' proposed 2013 DSM financial incentive of $24,137 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket;

2. approve the Company's 2013 CIP tracker account, as provided in the Company's *Petition* and summarized by the DOC's Comments with an ending balance of $397,382;

3. discontinue approving carrying charges for under or over recovered balances in Great Plains' CIP tracker account beginning in the month after the Commission issues its Order in this Docket;

4. in the event that the Commission continues to allow the application of carrying charges to the over and under recovery of CIP tracker accounts, disallow application of the carrying charge to the Company's financial incentive;

5. require Great Plains to provide revised CCRA calculations reflecting the

Commission's Order in this matter; and

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

With respect to carrying charges, The DOC supports the elimination of carrying charges from the CIP tracker account. Setting a CCRA at the level that will zero out the CIP tracker balance at any given time (*e.g.*, December 31, 2015), will not result in minimized total carrying costs because the CIP tracker balance varies considerably from month to month. Thus the DOC recommends that the Commission discontinue the application of carrying charges beginning in the month after the Commission issues its Order in this docket. Because the level of carrying costs are a function of the monthly variation in the tracker balance, the DOC provided an alternate Commission recommendation; that is, to disallow application of the carrying charge to the Company's financial incentive. The DOC supports this as an alternate recommendation.

In addition, should carrying charges be eliminated from all or a portion of Great Plains' CIP tracker, the DOC recommends that the Commission require the Company to submit revised CCRA calculations reflecting the Commission's decisions in this matter.

IV. Staff Discussion

Staff agrees with the DOC that the 2013 tracker account was calculated correctly. As such, the Commission should approve Great Plain's 2013 year end CIP Tracker account balance of $397,382.00 as reported by the DOC.

With respect to the 2013 CIP incentive amount, Staff agrees with the DOC that the amount of $24,137 should be approved by the Commission. With respect to the carrying charge applied to the CIP tracker, Staff agrees with the DOC that it should be eliminated for two reasons. First, Staff believes that the current carrying cost structure provides a perverse incentive for any Company to maintain the CCRA at relatively low level and carry a significant positive tracker account balance. This increases the cost of the CIP over the long run.[1]

[1] Great Plains tracker balance has grown slightly over the past three years.

Second, Staff believes that the goal should be to carry a zero balance as much as possible in the tracker account. By having a carrying charge of any size, it will reduce the likelihood of such an outcome.[2] Again, the goal should be to keep CIP costs at a minimum. In this context, having an incentive structure which facilitates this outcome, generally will facilitate the achievement of the desired outcome.

With this in mind, Staff believes that the Commission's September 26, 2014 Order Approving Financial Incentives, Setting Conservation Cost Recovery Adjustment, Reducing Carrying Charges, And Varying Rules in Docket No. E-017/M-14-201 is quite instructive and useful for this matter. In that Order, the Commission modified the carrying charge on the CIP tracker-account balance to the short-term cost of debt set in the Company's last rate case. In its Order at page 6, the Commission determined the following:

> The Commission concurs with the Chamber and the Department that it is no longer appropriate to grant the Company carrying charges on unrecovered CIP costs at its authorized rate of return. The Commission will, however, grant carrying charges at the Company's short-term cost of debt, as explained below.

The Commission defended its determination that using authorized rate of return as excessive and may not be appropriate in the rate rider/tracker account context at page 7:

> Here, the Commission concurs with the Chamber and the Department that granting carrying charges at Otter Tail's authorized rate of return would be excessive. While the CIP financial incentives making up the bulk of the CIP tracker account serve an important public-policy purpose, they are not the kind of costs—out of pocket costs—for which rate-of-return treatment can be most readily justified.

Additionally, the Commission reasoned that the generous carrying charges were appropriate at the beginning of the DSM financial incentives as a way to facilitate the success of the program. The Commission Order provided the following reasoning at page 7:

> Further, the factual context that led to setting carrying charges at the overall rate of return no longer applies. As the Department pointed out, in 1992—and for years thereafter—demand-side management financial incentives were small, the financial-incentive program was new, and it was important to use whatever tools were at hand to encourage its success. The incentives are now sizeable, the program is well established, and Otter Tail itself stated at hearing that reducing or eliminating carrying charges would not affect its conservation commitment or efforts, just its approach to rate amelioration.

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[2] Staff notes that a lower carrying charge will result in a reduced incentive for maintaining a significant tracker balance.

Finally, the Commission reasoned that there is no perfect mapping between the cost recovery period and interest rates. However, the short-term cost of debt is the closest match. The Commission's Order stated the following at page 7:

> While there is no exact match between this additional twelve-month recovery period and a standard interest rate, the Commission concurs with the Department and the Chamber that the authorized cost of short-term debt is the closest match contained in the record. The twelve-month term typical of short-term debt corresponds to the twelve-month period CIP costs are typically carried in the tracker account. And, while the additional twelve months of recovery necessitated by the moderated CCRA level is anomalous, the short-term debt rate is still more consistent with the public interest than the overall rate of return, given the nature of these costs—cash financial incentives—and the relatively short term—two years—within which they will be recovered.

Finally, the CCRA rate should be set with the goal of bringing the tracker account to zero in a timely but reasonable manner. In the event the Commission eliminates or reduces the carrying charges, it would be reasonable to bring the tracker to zero as quickly as possible. At the same time, the Commission needs to be mindful of the rate impact on the Company's customers. With the factors identified above in mind, Staff believes that it would be reasonable to keep the CCRA rate at the current level of $0.1023 per Dth. Staff believes that leaving the rate at the current level should at the very worst not allow the positive tracker balance to get larger. Next year, the Company should evaluate the progress that has been made, and propose a rate which would continue the progress to bring the tracker balance to zero.

V. Commission Options

A. Should the Commission approve Great Plain's 2013 CIP tracker account?

1. Approve Great Plains' 2013 CIP tracker account as indicated at page four of the DOC's July 14, 2014 comments.

2. Do not approve Great Plains' 2013 CIP tracker account.

B. Should the Commission approve an incentive of $24,137 for Great Plain's 2013 CIP achievements?

1. Approve Great Plains' 2013 financial incentive for CIP achievements.

2. Do not approve Great Plains' 2013 financial incentive for CIP achievements.

C. Should the Commission approve Great Plain's proposed bill message for publication in the billing month immediately following the date of the Order in this docket with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

1. Approve Great Plain's proposed bill message with the modifications that the effective date and gas CCRA listed in the bill message be updated in the compliance filing to reflect the Commission's determinations of the effective date and approved rate.

2. Do not approve Great Plains' proposed bill message.

3. Delegate authority to the executive secretary to approve customer notices for the duration of this proceeding.[3]

D. Should the Commission eliminate the carrying charge or otherwise modify its application to Great Plains' tracker balance for the CIP rider effective with the date of the Commission's Order?

1. Modify the carrying charge to be equal to the two year U.S. Treasury Bond rate as of October 29, 2014. The modification shall be effective as of the date of the Commission's Order in this docket.[4]

2. Do not eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.

3. Eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.

4. Modify the application of the carrying charge to exclude the Company's financial incentive when determining the amount of carrying charges allowed for recovery.

5. Take other action the Commission deems appropriate.

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[3] If the Commission chooses this option, in the event of a change of any circumstances which require a modification of the notice, the matter would not have to come back before the Commission. The matter could be addressed by the Executive Secretary. As such, this would increase flexibility for all involved in the process. The parties may wish to address this issue in the course of comments which they make before the Commission.

[4] In Great Plain's last rate case, Docket No.G-004/GR-04-1487, the Commission did not establish a short-term cost of debt in establishing the Company's capital structure.

E. At what level should the Commission set the conservation cost recovery adjustment (CCRA) for 2014/2015?

1. Maintain the CCRA at its current level of $0.1023/Dth.

2. approve Great Plains' proposed CCRA of $0.0747 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 this 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 as proposed by the Company.

3. In the event the Commission eliminates carrying charges, require the Company to submit revised CCRA calculations reflecting the Commission's decisions as recommended by the DOC.

VII. Staff Recommendation

Staff recommends items A1, B1, C1, D1, and E1.