Your Touchstone Energy® Cooperative

April 5, 2022

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, MN 55101-2147

Subject: ***Dakota Electric Association Reply Comments***

In the Matter of Dakota Electric Association's
2021 Integrated Distribution System Plan
Docket No. E-111/M-21-728

Dear Mr. Seuffert:

On November 1, 2021, Dakota Electric Association® (Dakota Electric or Cooperative) filed the Cooperative's second Integrated Distribution Plan (IDP) in the above-referenced docket in response to filing requirements established by the Minnesota Public Utilities Commission's (Commission or MPUC) February 20, 2019 *Order Adopting Integrated Distribution Plan Filing Requirements* (February Order) in Docket No. E-111/CI-18-255 and subsequently amended in the Commission's November 2, 2020 *Order Accepting Integrated Distribution Plan and Modifying Filing Requirements* (November Order) in Docket No. E-111/M-19-674.

On November 15, 2021, the Commission issued a *Notice of Comment Period* (Notice) in the above-referenced docket. The Notice raised the single issue of whether the Commission should accept or reject Dakota Electric's 2021 IDP. This Notice also identified the following topics as being open for comment:

- Should the Commission accept or reject Dakota Electric Association's Integrated Distribution Plan (IDP)?
- Does the IDP filed by Dakota Electric Association achieve the planning objectives outlined in the filing requirements as amended by the Commission's November 2, 2020 Order?
- What IDP filing requirements provide the most value to the process and why?
- Are there filing requirements that are not informative and/or should be deleted or modified, and why?
- Are there other issues or concerns related to this matter?

On February 9, 2022, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed a letter (February Letter) in Dakota Electric's IDP. This letter was in response to the Commission's order in Xcel Energy's 2017 and 2018 Transmission Cost Recovery Rider Petition and included comments from the Department and a supporting report as an attachment. The Department refers to this supporting report as the Guidance Document.

The Department was the only party that filed comments in this matter on March 15, 2022.

Dakota Electric Reply Comments

Dakota Electric submits these Reply Comments in response to the observations and recommendations in the Department's comments. The Cooperative also responds separately to the Department's February Letter. Generally speaking, the Department's February Letter and comments seek to create a framework, or start a discussion, about how best to use the IDP in the future, and how it will tie to grid modernization and the costs of distribution system upgrades as the electrical system changes. Dakota Electric shares these goals and is appreciative of a pathway that seeks to better define the IDP process. However, based on its review of the Department's February Letter and comments, Dakota Electric has identified process concerns and resource concerns, especially given the Cooperative's business model, that we believe require attention. Dakota Electric address these filings separately below.

After reviewing the Department's filings, Dakota Electric believes that a brief explanation of its business model is necessary. Unlike other utilities subject to the IDP requirements, Dakota Electric is a distribution-only electric cooperative, and we are unique as the only rate regulated electric cooperative in Minnesota. We do not own generation assets and receive all our power and transmission services from our wholesale power producer Great River Energy. We are also unique in that we are a not-for-profit member-owned utility. Dakota Electric makes business decisions based on the needs and expectations of our members and not shareholders. These business decisions are overseen by management and approved by an elected Board of Directors made up of 12 member owners. In relevant part to this docket, the Cooperative's annual distribution capital construction budget and planning assumptions are created within our engineering department. Within the 2021 IDP introduction, section 5, there is a detailed discussion of how the annual capital construction budget is developed. Once this budget is prepared, it is presented to senior management and incorporated into the long-range forecast and yearly corporate forecast for the whole cooperative. This final corporate budget is then presented to the Board of Directors for final approval. Dakota Electric's Board of Directors has a fiduciary responsibility to its members, and they work to ensure that costs are reasonable and that proposals, projects, or large expenditures are in the best interest of members. Before Dakota Electric were to make any grid modernization proposal before the Commission, the business case would be presented to the Board of Directors for their approval. The business case would include detailed analysis of alternatives and measures to minimize cost while also achieving the needs of the business case, meeting internal service requirement, and, most importantly, benefitting members. This process does not mean that Dakota Electric is immune from errors, but we include this discussion to underscore the level of review and commitment we have toward cost containment and ratepayer protection.

Response to Department Letter

The Department's February Letter raises pertinent questions regarding grid modernization upgrades and the reasonableness of costs. Dakota Electric agrees that these are important issues and greater attention from a policy perspective is needed, especially as the distribution grid becomes more complex in the coming years. Dakota Electric is, however, somewhat troubled by certain arguments in the Department's analysis and the process used by the Department regarding the Guidance Document. Dakota Electric responds to the Department's analysis below and divides its response into the following areas:

1) process proposed by the Department;
2) general cost recovery principles; and
3) specific concerns with the proposed process.

<u>Proposed Process</u>

The main thrust of the Department's proposed evaluation method appears to be the creation of a unified framework to analyze grid modernization projects, similar to how large energy projects are reviewed through the Certificate of Need (CN)/Integrated Resource Plan (IRP) process or the Midcontinent Independent Service Operator (MISO)/CN process. This is supported by the following statement in the February Letter:

> The Guidance Document is also intended to guide the creation of a framework for grid modernization in Minnesota, one that connects utility IDPs to specific utility grid modernization investments, similar to the IRP-CN and MISO transmission planning-CN connections, and at its core provides protections for utility ratepayers and certainly to stakeholders on the process by which grid modernization investments are undertaken in Minnesota.[1]

Dakota Electric shares the Department's goal of ratepayer protections. As a member-owned distribution cooperative, controlling costs and providing benefits to our members (which are also our shareholders) are core principles at Dakota Electric. These principles

[1] February 9, 2022 Department Letter, Page 10.

guided our AGi Project and were considered at each step in the project and continue today. Although we share the Department's ratepayer protection goals, the overarching method and supporting requirements laid out in the Guidance Document are problematic.

As noted earlier, the Guidance Document is intended to create a framework for the future analysis of grid modernization investments. The Department also goes a step further by noting its intention to evaluate grid modernization proposals based on the prescriptions of the Guidance Document and will do so absent Commission action.[2] Dakota Electric acknowledges the Department's ability to analyze proposals in whatever manner it sees fit; however, the Guidance Document is presented in such a way that it is the sole authority for analyzing grid modernization and distribution projects. It is unclear if this is the Department's intention, but, without input from other parties, they have created their own set of administrative rules. This de facto rulemaking also represents an unexpected departure from the Department's clear policy in the last IDP where they stated that the IDP reporting process is designed to be iterative and will necessarily change over time.[3] Given this expectation, Dakota Electric approached the IDP using this assumption.

The Department may argue that the Guidance Document is the first step in eliciting further input from parties, but Dakota Electric would strongly oppose that reasoning. The Guidance Document was not filed in response to the Commission's Notice of Comment for our IDP, and there is no record evidence to support the Guidance Document as it relates to Dakota Electric and its inclusion in this docket. Although Dakota Electric was aware of the Request for Proposal (RFP), the RFP was issued *explicitly* for Xcel Energy in response to an ordering point in Xcel Energy's 2017 and 2018 TCR Rider filing.[4] There was no expectations or prior notice that the Department would apply this report to any utility other than Xcel Energy. Further, Dakota Electric notes that the grid modernization report, although related to the IDP, is in many respects a

[2] Department Comments, Page 10.
[3] January 29, 2020 Department Comments in Docket No. E111/M-19-674.
[4] Department Letter, Page 1.

unique regulatory filing, which begs the question why the Department did not file this separately.

The tenor of the Guidance Document, its declarative nature, and the unusual filing approach used by the Department suggests that input from other parties is an afterthought. The Department's decision to present the Guidance Document in the manner it did puts this topic down an adversarial path when, in Dakota Electric's opinion, this topic should be dealt with in a collaborative setting. If the Department's goal is to create a consistent framework or policy goal for the Commission to use in the IDP, then Dakota Electric believes it would be better served by a stakeholder process rather than an expansion of the RFP without notice. Dakota Electric still believes a stakeholder process is possible, and would fully support it, subject to the Department formally withdrawing its recommendations that the Guidance Document be the sole authority for analyzing distribution planning. There are significant issues with the Guidance Document which will create unreasonable burden to Dakota Electric without demonstrable benefit our members. The Cooperative is concerned that pushing Commission approval of the Guidance Document at this time may create unintended consequences.

As noted above, the Guidance Document is presented much like a set of administrative rules from the Department. The expected reporting requirements and specificity of analysis and data envisioned in the Guidance Document are significant and have been arrived at without input from other parties. Simply put, the process used by the Department is inappropriate. The appropriate method to require these data is through either a statutory change or a formal rulemaking. It is unlikely that either of these options is viable; however, this does not mean that a unilateral "rulemaking" approach is warranted. Dakota Electric reiterates that a stakeholder process is a viable path forward in this matter.

The notion of a stakeholder process is not a foreign concept in the IDP process. Dakota Electric raised the idea of a stakeholder process in the last IDP. Similar issues in terms of how to report data came up during the proceeding and, in response, we provided the following discussion in comments:

> It would be helpful for the development of future IDP reports to have a process where Dakota Electric could engage with Commission staff and/or a stakeholder group to further refine the questions. For example, in Section A, question 29 asks for "*Planned distribution capital project, including drivers for the projects, timeline for improvement, and summary of anticipated changes in historic spending…….*" Dakota Electric understood this question as asking for a listing of all planned distribution capital projects. As discussed in the Dakota Electric IDP report, if Dakota Electric included all capital projects, the list would include many minor dollar capital projects, such as interconnecting a new residential or commercial service. Besides the fact that compiling a list to include all the capital projects would be very time consuming, difficult and produce a list which would not be very useful; Dakota Electric assumed that this was not what was envisioned when the question was written. For the next IDP report, it would be helpful to have a process for the utilities to work with a Commission staff and/or a stakeholder group to refine the questions.
>
> Dakota Electric would like to recommend that before the list of questions is finalized for the next IDP report, the Commission Staff, utilities and stakeholders work together to review and refine the questions. Dakota Electric believes that an interactive <u>face-to-face</u> process of jointly reviewing the questions would help align the data and information provided by the utilities and would result in a more useful IDP report. An interactive, face-to-face discussion among the parties is preferred by Dakota Electric, as this would be a more effective process for Dakota Electric to understand the issues vs a written comment/ reply comment process which does not allow for an interactive discussion. Of course, a formal written comment process could be completed following the working group efforts, to ensure that all parties are heard. It would be important that during this interactive process, discussion among the group about the use cases for the data is covered. Through this process, it may be found that a question needs to be modified so the resulting data and information better fits the intended use case.[5] Emphasis added.

[5] January 29, 2020 Dakota Electric Comments in Docket Nos. E-111/CI-18-255 and E-111/M-19-674, Pages 3-4.

The Cooperative is fully aware that the Covid pandemic likely impacted the viability of a stakeholder process, but that does not mean that this kind of process is inappropriate. In fact, given the presentation of the Guidance Document, Dakota Electric believes that a stakeholder process is even more important now. Furthermore, the Cooperative continues to advocate for a *face-to-face* stakeholder process; we believe this will be more productive for these matters.

The use of a stakeholder process to craft a regulatory framework is not novel. The Department attempted to equate the IDP/Grid Modernization paradigm to that of the IRP/CN paradigm in its letter; however, the Department also included an order reference from the Commission noting that many of the criteria in the CN statute are not relevant to distribution projects.[6] The Commission examined a similar dilemma in 2009 when reviewing natural gas service quality standards.[7] Prior to that investigation, the Department observed inconsistencies in how natural gas utilities reported service quality metrics and noted that there were no administrative rules for natural gas service quality. There were (and still are), however, administrative rules for electric service quality. Based on these circumstances, the Department convened meetings with the natural gas utilities to discuss how these data should be reported and what electric service quality rules were applicable to the natural gas utilities. The Commission ultimately approved these service quality standards and, where necessary, made adjustments to account for the unique characteristics of certain utilities.

Dakota Electric believes that the stakeholder process used to create the natural gas service quality standards is a model that can be used to craft an IDP framework that provides the Commission with the correct set of information it needs to help guide grid modernization and distribution planning in Minnesota. Although the IDP and IRP are both planning documents, the Commission is correct that not all aspects of the IRP rules are applicable to an IDP; however, Dakota Electric believes there are likely applicable requirements as written that may be translate to the IDP process. Given the familiarity

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[6] Department Letter, Page 6.
[7] Docket No. G999/CI-09-409.

of the IRP process, and the Commission's experience with the IRP process, the Cooperative believes this is a good starting place to develop an IDP framework.

General Cost Recovery Principles

As noted earlier, it appears that the framework of the Guidance Document is interested in many respects in the reasonableness of costs and ratepayer protections. Dakota Electric shares these concerns and its business model as a not-for-profit, member owned cooperative emphasizes these facts. However, the Department's proposed framework, in terms of cost recovery, in the Guidance Document suggests a fundamental change in the relationship between planning and cost recovery. The IDP (and historically the IRP) is at its core a planning document, not a cost recovery docket. The IDP includes budget and forecasted cost information, but these are high-level planning estimates used to make decisions about distribution planning assumptions. A focus on cost estimates in the IDP is the incorrect venue to determine cost reasonableness as the IDP is the first step in the engineering process and cost estimates will likely change between filings. It is important to remember that distribution planning, unlike resource planning, is invariably reactionary in nature not proactive. As discussed at length in our response to the Department's comments below, the majority of our distribution planning, and expenditures on a year-to-year basis, relates to extension requests or system upgrades related to the needs of our members. We have little control over many of these expenditures and are only able to plan at a high level. Ultimately, we have an obligation to serve and if we have to make unexpected system upgrades, make changes to accommodate a new large load, or perhaps a DER interconnection, or respond to significant storm damage, we may have to adjust spending expectations. These changes are then reflected in spending for our various IDP reporting categories.

Contrary to how it is presented in the Guidance Document, the IDP represents the first step in the distribution planning process. The next phase in the cost recovery process is the project request. The Department divided the project request phase into three possible pathways: 1) Certification Request Process, 2) general rate case, and 3) an Electric Utility Infrastructure Cost (EUIC) Rider pursuant to Minn. Statute 21B.1636. The first pathway is not available to Dakota Electric as it is reserved only for a utility that files a multi-year rate plan or has a transmission cost recovery rider. At this phase, regardless of the pathway, the utility presents more specific cost estimates by component and defends the reasonableness of the proposal. This information may include discussion of the bidding process and timeline and expectations for when expenditures will occur. It is also likely that total cost for the project, and a potential cost cap, is presented. The Commission then approves, rejects, or modifies the proposal. Under standard ratemaking in a general rate case, the appropriate level of recovery is included in base rates and this is recovered from ratepayers through base rates.

The Cooperative is somewhat troubled by the Guidance Document which implies that future recovery of costs in base rates would be subject to true up after the fact. Dakota Electric fully acknowledges that costs must be reasonable, but the Department's approach represents a departure from standard ratemaking and could be considered single issue ratemaking because other, non-grid modernization items, would presumably not be subject to periodic review between rate cases. The Cooperative does, however, note that recovery through the EUIC is a different matter. Dakota Electric's AGi Rider recovery was approved by the Commission through the EUIC process. Under the EUIC, and any other riders, rate recovery is periodically updated based on actual costs incurred, and the Commission is able to determine whether recovery of various costs are reasonable.

The final phase in the cost recovery process is the annual review filing in the rider docket. At this phase in the process, the utility compares actual spending in the previous year with budgeted costs and presents budgeted expenditures for the upcoming year. This comparison determines the appropriate, reasonable level of recovery through the rider that the utility will receive and the subsequent rate assessed to ratepayers. This final phase of the process, for path number three, represents a second opportunity to review costs.

Dakota Electric's understanding of the Guidance Document is that the Department's review of the IDP would become more like the final phase of the current review process and hold the Cooperative, and other utilities, to cost estimates from prior IDPs. As noted earlier in this section, the cost estimates included in the IDP represent, in many cases, are high-level engineering assumptions that are likely to change based on new information, unpredictable service extension requests or system upgrades, and/or analyst judgement based on which cost categories they place a project. The IDP is not the correct venue for this sort of analysis and would represent a significant regulatory change. This concern is wholly separate from the significant additional regulatory cost that the Cooperative will likely incur to comply with this sort of regulatory framework.

<u>Specific Concerns with Guidance Document</u>

Dakota Electric identified several areas of the Guidance Document that are troubling, but in the interest of brevity, it will only address the most problematic issues at this time. The Cooperative specifically addresses the following topics: 1) Threshold for analysis; 2) Metrics and required data; and 3) benefit cost analysis. Dakota Electric addresses these topics separately below.

1. Threshold for analysis

The Guidance Document provides significant discussion and expected requirements for the analysis of grid modernization projects. The issue with the Department's discussion is that it does not provide any threshold for what constitutes a grid modernization project and what project, regardless of size, would require analysis and justification in the manner requested by the Department. The Cooperative discusses this further below, but the amount of data requested by the Department is burdensome and especially so for a smaller distribution project that is considered grid modernization. If the expectation is that all projects, regardless of size, will require the amount of analysis requested by the Department, it will result in significant resource requirements for Dakota Electric and would likely necessitate the addition of engineering and financial analysis staff with either no benefit or minimal benefit for our members. The Department places significant emphasis on cost containment in its Guidance Document and IDP comments; as such, the Cooperative is unclear how the likely addition of multiple staff positions is cost effective or reasonable.[8] Before any analytical framework can be considered, or analyzed, there must be clarity on what is considered a grid modernization project and what is the appropriate size to independently analyze a project before any metrics or reporting standards are even considered.

2. Metrics and required data

The Guidance Document includes significant discussion and provides a list of the data the Department expects in a grid modernization proposal.[9] After reviewing the Department's IDP comments, it is also possible that the Department expects this level of specificity in future IDP filings, for all distribution planning. The amount of data and proposed reporting requirements from the Department are in many respects more specific and detailed than what is required in an IRP/CN proceeding or in a general rate case. The greater issue is that this level of specificity would be expected in every IDP filing related to the project. The Department claims that this level of granular data is necessary to determine whether distribution plant decisions are appropriate and comply with state energy policy. The Department also stated in its comments that the information will help the Department better understand how distribution planning works.

Dakota Electric is unclear absent additional discussion what value the Department seeks to obtain from this granular level of data. The Cooperative is willing to provide sufficient information for the Department to conduct its analysis; however, it is important that reasonable guidelines exist for the provision of data. Although the

[8] Dakota Electric conservatively estimates that the all-in labor costs for a new engineering position, that is able to adequately analyze these types of projects, is in between $100,000 and $150,000 per year, per position.
[9] Guidance Document, Pages 20-32.

Cooperative does not necessarily believe this is the case, Dakota Electric is concerned that the Department wants to become involved with our internal budgeting process. This is a significant issue for Dakota Electric, and we look forward to discussing this matter in greater detail with the Department. This is an issue that the Cooperative believes should be addressed and contemplated in the stakeholder process discussed earlier in these comments. Further, if the Department is interested in learning more about specific distribution planning assumptions, and how distribution planning occurs, Dakota Electric is willing to host the Department and provide them with a better understanding of how the Cooperative approaches distribution planning and budgeting.

3. Benefit Cost Analysis

The Department's Guidance Document analyzes the topic of cost benefit analysis and how distribution planning should be assessed in terms of reasonableness.[10] The discussion is lengthy, specific, and includes the Department's articulation of its position that a Benefit-Cost Analysis (BCA) approach is the appropriate method to analyze grid modernization projects. The Department's goal is summarized with the following quote from its February Letter:

> The BCA framework of the Guidance Document establishes the functionality of the grid modernization investment, analyzes alternatives to the proposed investment, clearly identifies the costs and benefits of the proposed investment, and requires a comparison between scenarios that illustrates the impact that the proposed investment is expected to have. It can be used to create a standard of review specific to grid modernization investments. This standard of review should be applicable to all utility grid modernization investment proposals regardless of the path a utility takes to request approval.[11]

It is encouraging that the Department expects to use this approach strictly for grid modernization projects; however, the Department's analysis and conclusions are premature without additional clarification. The discussion in the Guidance Document

[10] Guidance Document, Pages 9-20.
[11] Department February Letter, Page 8.

assumes that grid modernization is a binary situation; however, this is not the case because grid modernization is, arguably, a nebulous concept that can be open to interpretation. The Department also appears to assume that grid modernization projects are simply proposed by a utility for the sake of proposal. These assumptions are overly simplistic, becausehey do not take into account the complex nature underlying grid modernization projects. Take, for example, an advanced meter replacement program. This may be considered a grid modernization project; however, if a utility's meters are reaching the end of their useful life, or support, then the meter program is also part of regular utility maintenance and upkeep. Furthermore, there may be policy requirements or regulatory compliances that require a utility to move toward advanced meters. This type of information needs to be fully considered when determining what cost benefit analysis, or combination of analyses, is most appropriate to analyze the reasonableness of a project.

The topic of benefit cost analysis was touched on by the Commission in a recent Otter Tail Power Company order as well. In this order, the Commission appeared to understand the complexity that can be involved with analyzing distribution planning type projects and did not adopt a particular cost-benefit methodology as noted in the following excerpt:

> The Commission encouraged utilities to include in their individual proposals a cost-benefit analysis to examine long-term ratepayer and societal benefits, as well as potential costs, but the Commission did not adopt a particular cost-benefit methodology. Further, the Commission determined that cost recovery proposals should be decided on a case-by-case basis considering various factors, such as the purpose, nature, magnitude, and potential benefits of the investments.[12]

The Commission also acknowledged that each proposal has unique circumstances that should considered. This is an important point that was made by the Commission and is especially relevant to distribution planning.

[12] October 27, 2020 Order, Docket No. E017/M-20-181.

The Department's decision to focus on the BCA process, without consideration for other factors, ignores the fact that distribution planning is typically reactionary in nature and in response to member needs and creates an unnecessarily restrictive method to analyze the reasonableness of various projects. Decisions related to distribution planning occur many times on short notice or for reasons that are not strictly cost based. It is important that any planning decisions are able to maintain system reliability and service, which is key requirement of Minnesota State 216B.01.[13] Dakota Electric has an obligation to provide its members with adequate and reliable service at reasonable rates.

Dakota Electric shares the Department's concerns regarding ratepayer protection and agrees that it is important that a cost benefit analysis is conducted for large projects, such as our AGi project. When developing our AGi project, we analyzed various scenarios, types of vendors, and project variants to determine which combination would achieve the business care for the AGi project while also providing our members with the most value at a reasonable cost. The Cooperative's primary concern with the Department's stance, as articulated in the Guidance Document, is that it is too prescriptive. Without set standards for what constitutes a grid modernization project, or thresholds for what constitutes a project that requires detailed analysis (Guidance Document as written suggests any project, regardless of size, will need detailed review), the level of detail and specificity envisioned by the Department is unreasonable. Furthermore, the prescriptive nature of the BCA requirements does not acknowledge

[13] Minnesota State 216B.01 states the following:

> It is hereby declared to be in the public interest that public utilities be regulated as hereinafter provided in order to provide the retail consumers of natural gas and electric service in this state with **adequate and reliable services** at reasonable rates, consistent with the financial and economic requirements of public utilities and their need to construct facilities to provide such services or to otherwise obtain energy supplies, to avoid unnecessary duplication of facilities which increase the cost of service to the consumer and to minimize disputes between public utilities which may result in inconvenience or diminish efficiency in service to the consumers. Because municipal utilities are presently effectively regulated by the residents of the municipalities which own and operate them, and cooperative electric associations are presently effectively regulated and controlled by the membership under the provisions of chapter 308A, it is deemed unnecessary to subject such utilities to regulation under this chapter except as specifically provided herein. **Emphasis added.**

the complex nature of distribution planning and that multiple cost benefit analysis methods may be appropriate to determine the reasonableness of a project. Finally, Dakota Electric reiterates that the IDP is not a cost recovery filing. It is unclear what relevance a BCA, or any cost benefit analysis, has specifically to the IDP, which is a planning document. The Cooperative believes that additional discussion amongst parties on this topic is necessary.

IDP Comment Response

The Commission's Notice stated that the purpose of the Commission's IDP filing requirements is to facilitate a utility's IDP filing that will:

- Maintain and enhance the safety, security, reliability, and resilience of the electricity grid, at fair and reasonable costs, consistent with the state's energy policies;
- Enable greater customer engagement, empowerment, and options for energy services;
- Move toward the creation of efficient, cost-effective, accessible grid platforms for new products, new services, and opportunities for adoption of new distributed technologies;
- Ensure optimized utilization of electricity grid assets and resources to minimize total system costs; and
- Provide the Commission with the information necessary to understand the utility's short-term and long-term distribution-system plans, the costs and benefits of specific investments, and a comprehensive analysis of ratepayer cost and value.

As noted above, the Department was the only party that filed comments in this matter. The Department requested additional information from Dakota Electric and noted that it would provide final recommendations in party reply comments. Specifically, the Department made the following requests for additional information in reply comments:

- *Request 1* – The Department requests that Dakota Electric provide additional information and/or discussion clarifying which IDP Budget Category tracks the costs of each component of the AGi project over planning years 2021-2025.

- *Request 2* – The Department requests that Dakota Electric provide additional information and/or discussion regarding how capital construction project alternatives are evaluated and funded.
- *Request 3* – The Department requests that Dakota Electric provide a narrative explanation for the changes in spending for each IDP Budget Category compared to the 2019 IDP. The Department also requests that the Cooperative provide an explanation for how budgeted capital expenditures that are currently accounted for as System Expansion for Capacity and Reliability would be allocated between the IDP Budget Categories of System Expansion or Upgrades for Capacity and System Expansion or Upgrades for Reliability and Power Quality in the Cooperative's 2021-2025 proposed budget.

The Department also made the following initial recommendations:

- The Department recommends that the Commission require utility grid modernization proposals to adhere to the filing requirements, methods of evaluation, and ratepayer protections detailed in the Guidance Document.
- The Department requests that in future filings regarding customer-facing utility offerings and programs that may be enabled by new investments in grid modernization technologies such as the AGi project or an ADMS project, Dakota Electric provides the following information:
    - Internal benefit-cost analyses for reference and investment case scenarios, including
    - reasonably known and analyzed alternatives;
    - Assumptions and data supporting the projected customer participation rates;
    - Sensitivity analysis for varying rates of adoption of proposed programs; and

    - Discussion of how the proposed customer-facing utility offerings and programs may interact with existing or proposed Conservation Improvement Plan or Next Generation Energy Act programs.
- The Department recommends that the Commission include DEA's IDP Filing Requirements in its Order in this and future IDP proceedings, including a red-line version if modifications are made to DEA's IDP Filing Requirements.

Dakota Electric responds separately to each of these requests and initial recommendations below.

Before responding directly, the Cooperative notes that it worked diligently to provide information in response to previous Commission orders and filing requirements. The responses which were contained within the IDP report were based upon our understanding of the information that was being requested by each of the questions. Dakota Electric operates under the assumption that the IDP is an iterative process and, as such, expects evolving expectations and changes or modifications to certain reporting and data requirements as additional information becomes available and as more experience with planning occurs. Overall, the comments supplied by the Department and its Guidance Document support Dakota Electric's analysis above that additional discussion is needed to determine, and solidify, the policy implications, requirements, and expectations for the IDP process. This discussion could help clarify the use cases for the information requested within the IDP report and help shape the format of the requests that are included in future IDP reports. The discussion would also help the utilities and stakeholders come to a common understanding of the terminology used within the requests. Simple terms like "grid modernization project" or "planned project" can be interpreted quite differently by individuals, so it would be helpful to have a common understanding among the parties for these terms.

- ***Request 1 –*** "*The Department requests that Dakota Electric provide additional information and/or discussion clarifying which IDP Budget Category tracks the costs of each component of the AGi project over planning years 2021-2025."*

The Cooperative notes that it already tracks and forecasts costs for the AGi project by cost categories as approved by the Commission in Docket No. E111/M-18-640. Dakota Electric continues to collect and report cost data by these categories, and the Commission recently approved our AGi Rider rates for 2022 in Docket No. E111/M-22-30.[14] Notwithstanding this background, Dakota Electric responds to the Department's request. The Department noted in its comments that Dakota Electric's total spending for 2021-2025 is $21.05 million greater than the period from 2016-2020.[15] We reviewed this information and the increase is due to the AGi project and includes the cost of the meters and load control equipment. The AGi project spending represented a small amount in 2019, with the majority of the project spending occurring in the 2020-2023 period. As such, the increased capital costs between the two periods of time is due to the AGi project. The Department also requested clarification of where AGi project spending was included in the historical and forecasted spending for the years 2021-2025.[16] The physical metering costs of the AGi project were included in the metering category. The load control device installation costs were included under the Grid Modernization category. Communication costs for the AGi project were placed in the Grid Modernization category. The other AGi costs are included in the historical and forecasted capital costs for 2019-2023.

- ***Request 2*** – *"The Department requests that Dakota Electric provide additional information and/or discussion regarding how capital construction project alternatives are evaluated and funded."*

[14] The Commission has not issued its order in this docket, but it did unanimously approve our proposed rates at the March 31, 2022 Agenda Meeting.
[15] Department Comments, Page 5.
[16] Department Comments, Page 15.

This request is based on the general assumption that prior to every major capital construction project there is time available for Dakota Electric to do a complete economic analysis of the possible scenarios and the costs and benefits of each possible scenario. In particular, as detailed in the Guidance Document, the Department expects to see investment scenarios and BCA results for capital construction projects. Inherent in this request is the additional assumption that Dakota Electric has sufficient time to procure the necessary materials and resources, both financial and human capital, to create a unique construction design before the necessary electrical service is required. Although well place, and the Cooperative understands the basis for this request, these assumptions are flawed. As discussed in our initial IDP filing and in the 2021 IDP, Dakota Electric's distribution planning responds to the needs of the community. When a local government authority requires Dakota Electric to move and rebuild existing facilities, Dakota Electric has a short period of time, sometimes only weeks, to respond and remove and replace the facilities. In many instances, these replacement projects are governed by a local franchise agreement, or right-of-way easement requirement, and Dakota Electric must comply in a short period of time. Notwithstanding these requirements, Dakota Electric is responsive to these requests because we see these communities as trusted members, and we want to maintain our positive relationships with these communities.

In addition to requests by local authorities, Dakota Electric must be prepared to serve new members and developments. When a new development, or service, requests a line extension to their new home, residential development, or business, Dakota Electric needs to meet the schedule of the developer and contractors. Timely responses to service extension requests are an implicit requirement of the Commission's service quality rules and, from a member satisfaction standpoint, this is a business objective that the Cooperative strives to achieve. Dakota Electric does not have the opportunity to ask for an extension to provide time for studying possible scenarios, nor has the Cooperative received complaints from members regarding extension costs, which would suggest member concern that costs of extension are unreasonable. In the simplest sense, Dakota Electric must be ready to serve the needs of our membership.

As a member owned, not-for-profit, electric cooperative, Dakota Electric's business model and operations are driven by the needs of our members, who are also our shareholders. Our members expect safe, reliable, and cost-effective electric service, and this is the standard that Dakota Electric uses when planning its distribution system. If an alternative system design or piece of equipment allows us to safely, and reliably, serve our members at a lower cost, we will pursue it. As shown in Section E of the IDP, Dakota Electric looks at possible standard responses to the needs of our membership. Dakota Electric strives to meet the electrical capacity and reliability required by our membership in the most cost-effective methods possible. Utilization of non-wired alternatives are being reviewed and considered as to where they could be used instead of more traditional methods. As detailed in Section E of the IDP filing, the non-wired alternatives which Dakota Electric is aware of do not yet meet the reliability needs or provide overall value for our membership.

When looking at new systems, such as an Advanced Distribution Management System (ADMS), different options, such as continuing to do what we are doing, without the new ADMS system, will be studied and a cost benefit analysis will be performed. Dakota Electric will conduct detailed cost benefit analyses for large projects, such as the AGi, because they are prudent reviews that are necessary to support the business case for the proposal. In the case of standard distribution projects, conducting detailed cost benefit analyses is simply not practical. Dakota Electric must be responsive to its members, and we strive to minimize cost and maximize member benefit through regular business procurement practices, similar to what Dakota Electric did for the AGi project. The Dakota Electric Board, made up of elected representatives from our membership, require these kinds of analyses and would not approve spending on a new initiative without such analysis.

- ***Request 3 –*** *"The Department requests that Dakota Electric provide a narrative explanation for the changes in spending for each IDP Budget Category compared to the 2019 IDP. The Department also requests that the Cooperative provide an explanation for how budgeted capital expenditures that are currently accounted for as System Expansion for Capacity and Reliability would be allocated between the IDP Budget Categories of System Expansion or Upgrades for Capacity and System Expansion or Upgrades for Reliability and Power Quality in the Cooperative's 2021-2025 proposed budget."*

The first part of this request is relatively broad and underlines a core issue that Dakota Electric has noted previously in this and other IDP filings, namely that the data categories have significant overlap. The IDP cost areas can be difficult to quantify or categorize because certain components can be placed in different buckets based on a particular project. Attempting to compare the actual values between the IDPs is difficult due to the method that Dakota Electric, and all utilities, is required to track costs. Dakota Electric follows the required practice for utility financial records which is the categorization of these costs on a "what basis" and not a "why basis." Property taxes, financial funding, and depreciation, amongst other things, are illustrative examples of this accounting. Dakota Electric is required to account for what was built and where it is located so that these functions are properly reported. As noted in the 2019 IDP and 2021 IDPs, the tables of historical and forecasted spending are an engineering estimate of why the project was, or will be, constructed.[17] During discussion at the January 2021 IDP stakeholder meeting, it was apparent to Dakota Electric that engineering estimates were considered appropriate for IDP reporting and there was no expectation that Dakota Electric would need to maintain separate financial books.

Dakota Electric responds to the Commission's requirements, in terms of the cost categories, as best it can, but it is important to note that reporting costs in this manner will necessarily require allocations and analyst judgement. For example, metering is

[17] IDP Report, Page 54.

required for new services, so much of the metering costs are contained in new services; however, there are special projects, such as AGi or maintenance replacements of metering, where these costs will be included in the metering category. The Cooperative believes that further discussion and clarification of what should be included in each category would be useful so that future areas of dispute or concern are reduced.

Despite these concerns, Dakota Electric did review these costs to conduct some comparative analysis. Looking at spending levels, we observe that actual spending in 2019 and 2020 were below estimated levels. 2019 was $2.3 million below estimates, which was driven mostly by weather issues in late 2019 that caused construction delays. These issues impacted new residential developments and governmental road rebuild projects. There was also a difference of approximately $0.57 million in AGi project metering costs for 2019 caused by an initial delay in the AGi project. In 2020, we see that approximately 70% (69.5%) of the overall cost difference is attributed to the AGi project metering category. These cost differences were driven by the COVID pandemic, which impacted the efficiency and completion of construction projects. In particular, these pandemic delays slowed the exchange of meters by approximately 2-3 months. This delay resulted in a reduction in Metering category expenditures and reduced the Grid Modernization category due to a similar delay in Load Control receiver exchanges for the AGi project. Overall, this COVID related delay in the AGi project accounted for approximately 90% of the cost different between 2020 forecasted spending and 2020 actual spending.

In terms of the second part of this request, Dakota Electric understands the Department's question as to which 2022 projects should be allocated to "System Expansion or Upgrades for Capacity" and "System Expansion or Upgrades for Reliability and Power Quality" because of our presentation of these categories in our original filing. Dakota Electric notes that in Appendix E of our 2021 IDP, we included four projects over $100,000 in estimated costs that were listed as being in "System Expansion for Capacity and Reliability." Dakota Electric apologizes for this mis-categorization of the 2022 projects within the 2021 IDP. This mis-categorization likely occurred because these project costs can be placed in either category because they are for increasing capacity and for improving reliability. Two of the projects listed are for the Dodd Park Substation expansion. One of those is for the substation double ending which provides increased capacity for normal load serving and provides increased contingency capacity, thus improving reliability. The other project is a feeder reconfiguration/addition which added new circuits. In this instance, new circuits were added along with the double ending of the substation. By doing this, Dakota Electric can provide more capacity into the area and break up the load so that any failure impacts fewer members (*i.e.,* increased reliability). Another project is the construction of a new Cedar substation, which again adds capacity and provides for increased contingency capacity and improved reliability in the area. This again represents a project that can be included in multiple categories because both capacity and reliability were improved. For each of these four projects, the costs could have been included in either category, which explains the mis-categorization. The Cooperative apologizes for any confusion this may have caused.

- **Department Recommendation** "*The Department recommends that the Commission require utility grid modernization proposals to adhere to the filing requirements, methods of evaluation, and ratepayer protections detailed in the Guidance Document."*

As discussed at length above, Dakota Electric has significant concerns with the Department's Guidance Document and the resulting filing requirements recommended by the Department. Dakota Electric, and other parties, had no input into the creation of these proposed filing requirements, and we were notified of this Guidance Document through the Department's untimely filing on February 9, 2022. Dakota Electric generally understands the Department's reasons for a systematic approach to IDP analysis, but we do not believe the Guidance Document represents an appropriate process and we recommend that the Commission does not approve this recommendation.

- **Department Recommendation** "*The Department requests that in future filings regarding customer-facing utility offerings and programs that may be enabled by new investments in grid modernization technologies such as the AGi project or an ADMS project…*"

Dakota Electric does not necessarily oppose this recommendation but notes that it likely entails significant amounts of data and analysis. In addition, it is unclear how or in what manner the Department will want these data. It is also unclear what the Department means by "customer-facing utility offerings" without additional discussion. The Cooperative invites the Department to further clarify this recommendation, or provide additional guidance, so that Dakota Electric is able to provide the necessary data to satisfy the Department's request.

- **Department Recommendation** *"The Department recommends that the Commission include DEA's IDP Filing Requirements in its Order in this and future IDP proceedings, including a red-line version if modifications are made to DEA's IDP Filing Requirements."*

The Cooperative supports this recommendation. It will aid Dakota Electric in creation of its next IDP filing and ensure that we provide the Commission with the information and data they need to review our filing.

Conclusion

As noted in our original IDP filing, Dakota Electric devoted significant time to preparing this report and did so to provide sufficient data to the Commission to aid in their review of distribution planning. The Cooperative appreciates the Department's analysis of our report and, after reviewing the Department's comments, we believe that it is appropriate for the Commission to accept our 2021 IDP. However, as discussed at length in these reply comments, Dakota Electric does not believe the Department's

Guidance Document is the appropriate tool to analyze the reasonableness of grid modernization projects or distribution planning. The Cooperative believes that initiating a stakeholder process where discussions about the issues and methods raised in the Guidance Document can occur is necessary and prudent. The Cooperative is fully prepared to engage in this process and believes it is the most appropriate venue to further clarify the requirements and expectations of the IDP process.

Dakota Electric appreciates the opportunity to provide these Reply Comments and looks forward to continuing refinement of this, and future, Integrated Distribution Plans.

Sincerely,

/s/ Craig Turner

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Certificate of Service

I, Melissa Cherney, hereby certify that I have this day served copies of the attached document to those on the following service list by e-filing, personal service, or by causing to be placed in the U.S. mail at Farmington, Minnesota.

Docket No. *E-111/CI-21-728*

Dated this 5th day of April 2022

/s/ Melissa Cherney

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Melissa Cherney

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_21-728_M-21-728
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