

Staff Briefing Papers

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| Meeting Date | December 15, 2022 | Agenda Item *1 |
| Company | Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co. | |
| Docket No. | G-004/M-22-157 | |
| | In the Matter of Great Plains Natural Gas Company Annual Report on Incentive Compensation and Refund Plan | |
| Issues | Should the Commission approve Great Plains Natural Gas Company's 2021 Annual Incentive Compensation Report and Refund Plan? | |
| Staff | Ashley Marcus | Ashley.Marcus@state.mn.us 651-201-2192 |



Relevant Documents

Date

| | |
|--------------------------------------------------------------------------------------------|----------------|
| Great Plains – Compliance Filing – Annual Report on Incentive Compensation and Refund Plan | March 31, 2022 |
| Department of Commerce – Comments | July 22, 2022 |
| Great Plains – Reply Comments | July 29, 2022 |

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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.

I. Statement of the Issues

Should the Commission approve Great Plains Natural Gas Company's 2021 Annual Incentive Compensation (AIC) Report and Refund Plan?

II. Background

The Commission's October 26, 2020 Order in Docket G-004/GR-19-511 instructed Great Plains to make an annual compliance filing that reconciles the difference between allowed incentive compensation paid, with a 15% cap to each employee's salary, and the amounts included in base rates. Great Plains' March 31, 2022 compliance filing for 2021 showed that the actual allowed incentive compensation paid was \$15,679 lower than the incentive compensation amount included in base rates. Great Plains proposed to refund this difference. On July 22, 2022, the Department recommended that the Great Plains Natural Gas Company's incentive compensation refund proposal for 2021 be approved.

III. Parties' Comments

A. Great Plains Natural Gas Company – Initial Filing

In its March 31, 2022 filing, Great Plains stated that the incentive compensation currently included in base rates is \$261,892 and the amounts paid out to employees that are eligible for recovery were \$246,213 for the gas utility. Since Great Plains must refund any eligible incentive compensation that is not paid out, customers are due a \$15,679. The Company proposes to refund this amount to ratepayers as a credit to the true-up balance calculated in the next Revenue Decoupling Mechanism (RDM). Applying the refund as a credit to the RDM true-up balance will reduce RDM rates for Minnesota customers. Great Plains considered a different refund process; however, it did not select it because:¹

The Company has previously processed refunds through bill credits, but the process is administratively burdensome when factoring in the time and resources necessary to accurately apply the refund to customers' accounts. An added complexity in that administration is that customers are not static, meaning customers are cutting in and out of service every day, some moving within the Company's service territory while others move out. If the Company were to follow the refund plan used when refunding customers in the Tax Cuts and Jobs Act Docket No. E,G-999/CI-17-895, inactive customers owed a refund would receive a check if their refund was greater than \$5.00. Inactive customer refunds less than \$5.00 would be handled in accordance with Minnesota Statute 345.34. In that docket, the average residential customer refund was \$16.24 and the Company issued 1,391 checks to inactive residential customers with refunds greater than \$5.00. 992 residential customers had refunds less than \$5.00 and were handled in accordance with Minnesota Statute 345.34. Therefore, in recognition of the average residential refund being \$0.37 and the administrative complexities with refunds, the Company believes the administration of the refund is best accomplished

¹ Initial Filing, Pages 9 and 10

through a reduced RDM rate where the \$15,679 incentive over-recovery would be used to off-set the balance of the RDM true-up.

As reflected in Table 1, the residential class will receive an allocated credit of \$6,987.

Table 1 - Refund Allocation²

| Customer | 2021 Avg. Customer | 2021 Dk Use | Authorized Rev. Alloc* | Allocated Refund | Avg. Refund per Customer | Avg Refund per Dk |
|----------------------|--------------------|------------------|------------------------|-------------------|--------------------------|-------------------|
| Residential | 19,119 | 1,354,764 | 44.5630% | (\$6,987) | (\$0.37) | (\$0.0052) |
| Firm General | 3,057 | 1,177,907 | 30.0940% | (\$4,718) | (\$1.54) | (\$0.0040) |
| Grain Drying | 12 | 47,286 | 2.7440% | (\$430) | (\$35.85) | (\$0.0091) |
| Small IT Sales | 110 | 452,112 | 6.5010% | (\$1,019) | (\$9.27) | (\$0.0023) |
| Large IT Sales | 7 | 293,352 | 2.4510% | (\$384) | (\$54.90) | (\$0.0013) |
| Small IT Transport | 6 | 52,134 | 1.2520% | (\$196) | (\$32.72) | (\$0.0038) |
| Large IT Transport** | 10 | 2,203,264 | 12.3950% | (\$1,943) | (\$194.34) | (\$0.0009) |
| | 22,321 | 5,580,819 | 100.0000% | (\$15,679) | (\$0.70) | (\$0.0028) |

*Docket No. G004/GR-19-511, November 10, 2020 Final Order Compliance Filing, Exhibit 3, p. 2. "Distribution including CIP".

**Excludes flex contract customers. Includes Margin Sharing Customer.

B. Department of Commerce – Comments

The Department reviewed Great Plains' refund analysis and proposal. The Department concluded the Company provided the relevant data to comply with the annual incentive compensation requirement and supported the proposal to include the annual incentive compensation refunds as a credit in Great Plains' 2021 RDM rate update.

The Department recommended approval of Great Plains 2021 annual Incentive compensation report and refund plan and recommended that Great Plains provide a timeline for when the next RDM rate update filing is anticipated and when ratepayers can expect to see 2021 annual incentive compensation refunds reflected in their bills.

C. Great Plains Natural Gas Company – Reply Comments

Great Plains agreed with the Department's recommendations. The Company will file the next RDM update on May 15, 2023 with revised rate effective July 1, 2023. Additionally, the Company's request to continue its Revenue Decoupling Mechanism beyond the current period is pending before the Commission in Docket No. G-004/M-22-229 and the outcome may impact the refund method. Any change to the refund method would be filed in this docket with the date customers can expect the incentive refund to be included on their bills.

² Initial Filing, Attachment E, Pages 1 and 2

IV. Staff Comments

Staff agrees with the Department's recommendation to approve the 2021 annual incentive compensation refund of \$15,679 and include it as a reduction to the RDM update to be filed on May 15, 2023.

Staff notes that, consistent with annual incentive refunds processed by other utilities,³ the Commission may want to add interest to the refund amount. In those other proceedings, the Commission ordered that the prime interest rate, compounded monthly, be used. If the Commission adds interest, it could use March 1, 2022, the date the incentive compensation was paid to employees, as the effective date. Also, consistent with prior Commission practice, interest for future incentive refunds should accrued through the month immediately preceding the billing cycle in which the Company issues the refund.

Finally, if interest is approved, the Commission may want to order that an updated annual incentive compensation refund calculation be included as part of the 2023 RDM update.

V. Decision Options

Annual Incentive Compensation Report and Refund Plan

1. Accept Great Plains' Annual Incentive Compensation Report. (Great Plains, DOC)
2. Approve Great Plains' proposed \$15,679 refund. (Great Plains, DOC)
3. Approve Great Plains' proposal to refund incentive compensation as a credit to the true-up balance calculated in the next RDM filing. (Great Plains, DOC)

Application of Interest on the AIC Refund

4. Order that, for the current annual incentive compensation refund, interest be applied using the prime rate compounded monthly starting from the date the incentive compensation was paid to employees. (Staff)
5. Order Great Plains to include an updated refund amount that includes interest in its 2023 RDM update. (Staff)
6. Order that, for future annual incentive compensation refund filings, interest be applied using the prime rate compounded monthly starting from the date the incentive compensation was paid to employees through the month immediately preceding the billing cycle in which the refund is issued to ratepayers. (Staff)

³ Most recent Annual Incentive Compensation Petitions, Xcel Energy E,G-002/M-21-369 and Minnesota Power E-015/GR-16-664.