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May 1, 2018

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

RE: ***In the Matter of Great Plains Natural Gas Co.'s Revenue Decoupling Mechanism Rates and Decoupling Evaluation Report for Year 1 (2016-2017) of the Pilot Program. Docket No. G004/GR-15-879.***

Reply Comments of Great Plains Natural Gas Co.

Dear Mr. Wolf:

Great Plains Natural Gas Co. (Great Plains), a Division of MDU Resources Group, Inc., herewith electronically submits its Reply Comments in response to the Department of Commerce's (Department) April 6, 2018 Comments submitted in the above referenced docket.

In the Reply Comments set forth below, Great Plains addresses the Department's recommendations that (1) the evaluation period should be January through December with a corresponding change to the Company's Revenue Decoupling Mechanism (RDM) tariff to move the filing of the annual report to be no later than March 1; (2) the RDM tariff be modified to remove the language the "greater of the (1) authorized customers or (2)" from the determination of the Company's Designed Revenues in order to "remove the Company's ability to calculate the RDM adjustment factor most beneficial to Great Plains"; and (3) have the Company provide clarification regarding how the Company weather normalized sales in its Evaluation Plan and, if sales were weather normalized with other than 20-year data, to provide weather normalized sales based on 20-year normal weather.

(1) Evaluation Period

In its April 6, 2018 Comments, the Department argued it was inappropriate for the Company to use October 1, 2016 through September 30, 2017 for the initial evaluation period of the RDM pilot and that the Company should have instead used a January to December evaluation period. In support of its contention, the Department referred to the language included in the proposed RDM tariff and the Direct Testimony of Tamie Aberle submitted in Docket No. G004/GR-15-879. On page 27 of Ms. Aberle's testimony, the Company stated, "the initial evaluation period for determining RDM adjustments will begin the first day of the month following the Commission's order". However, the proposed RDM tariff accompanying that testimony stated, "the initial report shall reflect a 12-month period that begins on the first day of the month succeeding the implementation of final rate approved by the Commission…". This perceived inconsistency was carried forward until the final rates compliance filing dated January 3, 2017 at which time the Company then changed the tariff to reflect the timeframe of the evaluation period to start October 1.

Great Plains disagrees with the Department's characterization of the change in the RDM language that was included in the January 3, 2017 Compliance Filing. The Company's intent from the outset was for the first evaluation period of the RDM pilot to begin with the month following the Commission's final order, as laid out in Ms. Aberle's testimony. This intent is supported by the version of the RDM tariff that was included with the Company's Compliance Filing dated September 22, 2016. In this initial Compliance Filing, the RDM tariff language had been updated from that initially filed as an evaluation period and date in which to file a report was dependent on the timing of the rate case. The RDM tariff language was then updated to the following:

> No later than December 15th of the calendar year following the Commission's approval of the RDM tariff, and each December 15th thereafter, the Company shall file with the Commission a report that specifies the RDM adjustments to be effective for each rate class. The initial report shall reflect a 12-month period that begins on the first day of the month succeeding the implementation of final rates approved by the Commission in Docket G004/GR-15-879.

The updated language now included a deadline of December 15th of the year following the Commission's approval of the RDM tariff – which meant the Company's first decoupling report would be due December 15, 2017. The inclusion of the December 15 date in the Company's first compliance filing reflects the Company's intent to have the evaluation period begin the first day of the month following the Commission's order. However, the evaluation period language was not consistently adjusted.

On December 22, 2016 the Commission issued an order approving final rates and directed Great Plains to submit final tariff sheets that incorporate the Commission's decisions. Upon receipt of the Commission's Final Order, the Company clarified the evaluation time frame to be utilized under the RDM tariff, specifically highlighting the clarification in the transmittal letter that accompanied the Company's final tariffs. In particular, in its January 3, 2017 Compliance Filing, Great Plains stated:

> The December 22 Order authorized Great Plains to implement final rates on January 1, 2017 and required Great Plains to submit final tariff sheets incorporating the Commission's decisions. Attached hereto are the final tariff sheets and the rates implemented on January 1, 2017. The Revenue Decoupling Mechanism (RDM) schedules (Section No. 5 Original Sheet Nos. 125-126) were revised to reflect the time period covered under each RDM review period (paragraph a. and d. on Sheet No. 125) and the timing of the report to be filed with the Commission (paragraph a. on Sheet No. 126) in order to sync the RDM approved by the Commission in its Findings of Fact, Conclusions and Order issued on September 6, 2016 in Docket No. G004/GR-15-879 with the tariff sheets described above. Great Plains' original filing submitted on September 30, 2015 left the timing of the report open depending on the timing of the Commission's Order. ***The Company has clarified on the attached Tariff Sheet Nos. 125 and 126 that the RDM review will begin on October 1 each year with a report and the applicable adjustment to be effective for each rate class to be submitted December 1 each year.*** [Emphasis added.]

On January 18, 2017, the Department filed its Compliance Letter indicating its agreement that the Company's compliance filing and revised tariff sheets appropriately implemented the Commission's directives. Therefore, while the Company acknowledges that the difference in language between the Company's testimony and proposed tariff may have provided for some of the confusion surrounding this discussion, the Company clarified its intention and tariff in its January 3, 2017 Compliance Filing.

As such, the Company recommends the Commission reject the Department's recommendation of a January 1 through December 31 evaluation period and report date of March 1. Great Plains maintains that the RDM pilot was implemented at the time it was always intended – at the time of the final order - and the evaluation period should therefore remain as it currently is.

Great Plains does not support using a period consisting of less than 12 months for an evaluation period. If the evaluation period is modified it should reflect a 12 month calendar period.

(2) Designed Revenue Calculation

The Department contends the RDM tariff language should be modified so that the calculation for designed revenues utilizes actual customer counts rather than the greater of actual customers or authorized customers as authorized in the Company's RDM tariff today. The Department notes the modification removes the Company's incentive to use the customer count that maximizes its revenues, aligns Great Plains' tariff with other utilities' decoupling language, and provides additional protection for ratepayers. As noted below, the formula was not intended to provide a choice, the formula was aligned with at least one other utilities' formula at the time the formula was authorized for Great Plains and the current formula provides the Company the ability to collect dollars in the event volumes and customer numbers are less than authorized.

The Department highlights the results of the decoupling calculations for the North Large Interruptible Rates N85 & N82 as evidence of what it perceives is wrong with the Company's authorized method of calculating designed revenues. However, the Department's analysis is misplaced due to a unique situation that the Company did address in its report regarding the calculation for that customer class. The following is an explanation from section E-6, part b on page 34 of the first Decoupling Annual Report addressing the issue:

> One new customer did require a proxy revenue determination in order to account for the customer now taking service that was not active and was not included in the Company's last rate case. When volumes were forecasted for that case, the Company did not have any customers taking service under the Large IT Transport Service – Rate N82 tariff. However, one new customer did begin taking service under Rate N82 prior to the beginning of the initial decoupling evaluation period. In the RDM model, a comparison of actual revenue is made to authorized revenue; however, with no Rate N82 customers projected in the 2015 rate case there is no stated authorized revenue. As a proxy revenue determination for this evaluation period, the Company set the monthly actual sales to be the authorized sales for this new customer so that there would be no impact as a result of the new customer.

The Department is correct when it contends that the Per-Customer-Class and Per-Customer methods should yield the same surcharge or refund amount in the event a class has the same number of actual customers as authorized. However, the actual customer count for Rate N85 was different than authorized. The actual count was 4, compared to the authorized count of 5 as shown on Attachment A page 8 of the Company's report. As referenced in the above excerpt from the decoupling annual report, there were technically 0 authorized customers for Rate N82 in the last general rate case, but for purposes of the decoupling calculations for the class the Company set the authorized count equal to the actual count of one customer and set authorized volumes equal to the actual volumes used. This approach results in the new customer having no impact on the decoupling adjustment for the Large IT Rates N85 & N82 class for the initial evaluation period. The surcharge for this class strictly results from Rate N85 having one fewer customer and the associated lost volumes of that customer. So, while the customer count table the Department references does accurately show authorized customers and actual customers both totaling 5 for Large IT Rates N85 & N82, the decoupling adjustment calculation itself as shown on Attachment A page 8 of the report shows 6 authorized customers as compared to 5 actual customers. This is how the Per-Customer-Class method results in a surcharge and the Per-Customer method results in a refund, which is not an erroneous result.

The Department continues to characterize the authorized method of determining Designed Revenues as providing the Company with an unfair or biased choice of customer counts to use. This remains a mischaracterization. The authorized Designed Revenues calculation uses the greater of the actual or authorized customer count for two primary reasons. First, it accounts for customer growth, which is appropriate since there are clearly costs associated with the addition of new customers. Second, using a minimum of the authorized customer count ensures the Company will not pay a refund to a customer class even though it didn't collect its authorized margin from that class.

Table 1 below, updated to reflect revisions in the customer counts to correspond to the decoupling calculations, demonstrates the difference between the formula as authorized and the formula modified to exclude "or the greater of authorized customers". Under the modified formula, the decoupling adjustment will exclude the margin associated with customer differences if the authorized customers are greater than actual customers.

Table 1

Rate Class	Authorized Customers 1/	2017 Customers 1/	Difference	Authorized Margin per Customer	Margin Associated with Customer Difference
Residential Rate - N60	8,499	8,453	(46)	$ 252.44	($11,612)
Residential Rate - S60	10,337	10,284	(53)	201.60	(10,685)
Firm General - N70	1,271	1,270	(1)	956.87	(957)
Firm General - S70	1,732	1,740	8	838.17	6,705
Small IT Rates N71 & N81	72	67	(5)	7,898.81	(39,494)
Small IT Rates S71 & S81	72	65	(7)	7,784.72	(54,493)
Large IT Rates N85 & N82 2/	6	5	(1)	72,135.33	(72,135)
Large IT Rates S85 & S82	7	7	0	57,311.29	0
Total Minnesota	21,996	21,891	(105)		($182,671)

1/ Customer counts per the decoupling calculations provided in the Evaluation Report - Attachment A and as corrected for the Small IT rates in Response No. DOC 2 - Attachment B.

2/ Rate N82 had zero authorized customers in the Company's most recent rate case. Please see secion E-6, part b on page 34 of the Company's Decoupling Annual Report for a detailed explanation as to how a new customer under Rate N82 was handled so that it had no impact on the decoupling calculation for the Large IT North rate class. The lost margin of $72,135 due to customer difference shown above is strictly the result of a Rate N85 customer no longer taking service.

The Company maintains the calculation in the Designed Revenues calculation in its current form is appropriate for the above reasons. However, in the event the Commission determines the formula should be modified to reflect the same formula recently authorized for another utility with a pilot program, this formula change should be applied on a prospective basis only so as not to run afoul of the prohibition against retroactive ratemaking.

Finally, Great Plains notes the decoupling factors presented in Table 16 are the factors (that should be noted as per dk rather than $/therm) resulting from an evaluation of the January through December 2017 period based on the currently authorized formula and appropriately do not reflect a change in the formula. It should be noted the General S70 factor of $0.1976 shown in the Department's Table 16 should be $0.2010 as provided by the Company in Response No. DOC 2 Attachment A – Corrected.

(3) Clarification of Weather Normalized Sales

The Department requested that Great Plains provide a clarification of how the Company weather normalized sales in its Evaluation Plan, and if sales were weather normalized with other than 20-year data, to provide weather normalized sales data calculated using 20-year normal weather.

The weather normalized sales included in Table 7 of the Company's report do not reflect 20-year weather normalized sales, but rather the weather normalized sales included in the Company's 2013-2015 CIP Triennial filing, which reflect the average three-year weather normalized sales based on 36-month regressions for the Company's firm classes using 30 years of weather data. All CIP-related information included in Section C of the Company's report is pulled directly from Great Plains' annual CIP filings.

The Company recommends the Commission reject the Department's recommendation to adjust weather normalized information reported in the Company's CIP filings to maintain consistency in reporting CIP results across Great Plains' CIP and RDM report filings.

(4) Conclusion

The Company maintains that the evaluation period of October through September, as provided for under the Company's current tariff, is supported and continues to be appropriate. The Company also maintains that Great Plains calculated its decoupling surcharge and refund amounts correctly and in accordance with the RDM tariff as authorized. In the event the Commission determines the formula should be adjusted to reflect the use of actual customers only, any change in the formula should be applied on a prospective basis only.

Sincerely,

/s/ Tamie. A. Aberle

Tamie A. Aberle
Director of Regulatory Affairs

cc: Brian Meloy
Service List