COMMERCE DEPARTMENT

May 23, 2019

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G004/M-19-287

Dear Mr. Wolf:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

> Great Plains Natural Gas Company's 2018 Conservation Improvement Program Tracker and Shared Savings Demand Side Management Incentive (Petition).

The Petition was filed on April 26, 2019 by:

> Tamie A. Aberle, Director of Regulatory Affairs
> Great Plains Natural Gas Co.
> 400 North 4th St.
> Bismark, ND 58501

The Department recommends that the Commission **approve Great Plains Natural Gas Company's filing.** The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ GEMMA MILTICH
Financial Analyst

GM/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G004/M-19-287

I. INTRODUCTION

On April 26, 2019, Great Plains Natural Gas Company (Great Plains or the Company) submitted its 2018 Conservation Improvement Program (CIP) Status Report, CIP Tracker, and Demand Side Management (DSM) Incentive to the Minnesota Public Utilities Commission (Commission). The Company's filing (Petition) included the following:

- Expenditures, as recorded in the CIP tracker account for 2018, and the recovery proposed by the Company; and
- Company-proposed changes to the Conservation Cost Recovery Adjustment (CCRA).

In addition, Sections I and II of Great Plains' Petition contain a CIP Status Report for the period January 1, 2018 through December 31, 2018. This status report is intended to fulfill the annual reporting requirements outlined in Minnesota Rule 7690.0500. On May 10, 2019, Great Plains submitted a supplementary filing, which includes the Plan and Actual Product Information Sheets, pertaining to the 2018 CIP Status Report. Because the Company's CIP Status Report does not require Commission review or approval, this portion of the Petition has been assigned a separate docket number under which the Department will conduct additional analyses.[1]

II. DEPARTMENT ANALYSIS

Each year, the Minnesota Department of Commerce, Division of Energy Resources (Department) analyzes Great Plains' annual CIP filing to determine (1) whether the information provided by the Company complies with the applicable rules, statutes, and Commission orders and (2) whether the Company's associated proposals and requests are reasonable. The Department reviewed Sections III, IV, and V of the Petition to evaluate the CIP information provided by Great Plains and arrived at relevant recommendations for the Commission. The following discussion provides details around the Department's review and recommendations.

A. COMPLIANCE WITH PRIOR COMMISSION ORDERS

On September 4, 2018, the Commission issued its *Order* in Docket No. G004/M-18-118 with the following dispositions:

[1] See Docket No. G004/CIP-16-121.02.

(1) Approved Great Plains Natural Gas's 2017 CIP tracker account, as summarized in Table 1 of the Department's comments, resulting in a 2017 tracker balance of $224,198.

(2) Approved a 2018/2019 Conservation Cost Recovery Adjustment of $0.0130 per Dth, to be effective the first day of the month following this Order.

(3) Required Great Plains to include the following bill message (with the appropriate rate) in the billing month immediately following the date of this Order.

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

(4) Required Great Plains to submit a compliance filing, within 10 days of the issue date of this Order, with revised tariff sheets reflecting the Commission's determinations in this matter.

Additionally, in response to past CIP filings, the Commission has directed Great Plains to provide certain information in all future CIP filings. Those directives require Great Plains to:

- Update the interest rate used to calculate carrying charges to match the short term cost of debt approved by the Commission in the Company's most recent rate case;

- Use a CCRA calculation methodology that adequately accounts for carrying charges associated with the financial incentive; and

- Calculate the CCRA based on the existing tracker balance as well as projected sales, expenditures, financial incentive(s), and any pertinent adjustments that may occur over the period the CCRA will be in place.

Based on its review, the Department concludes that the Company's current Petition has complied with the requirements outlined by the Commission.

B. DSM FINANCIAL INCENTIVE CALCULATION

The following two sections provide (1) background information on and context around the DSM financial incentive and (2) the Department's evaluation of Great Plains' 2018 proposal regarding the DSM incentive.

1. *Background on the DSM Financial Incentive*

The Shared Savings DSM financial incentive plan was initially approved by the Commission in Docket No. E, G999/CI-08-133 on January 27, 2010.[2] The Commission later approved a *modified* Shared Savings DSM financial incentive mechanism in its August 5, 2016, *Order* in Docket No. E, G999/CI-08-133. The new incentive mechanism, which became effective January 1, 2017, is triggered for (1) an electric utility, when it achieves energy savings of 1 percent and (2) a gas utility, when it achieves energy savings of 0.7 percent. The percentage of energy savings is calculated on the utility's most recent three-year average of weather-normalized retail sales.[3] For 2018, the electric and gas incentives are capped at 12 percent of net benefits and 35 percent of Conservation Improvement Program (CIP) expenditures. The Commission's *Order* included the following language:[4]

(1) The Commission hereby revises its Shared Savings DSM Financial Incentive Plan with the modifications set forth below.

B. For gas utilities, the plan is modified to do the following:
1) Authorize financial incentives for a utility that achieves energy savings of at least 0.7 percent of the utility's retail sales.
2) For a utility that achieves energy savings equal to 0.7 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.2 percent of retail sales.
4) For savings levels of 1.2 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.

C. For all utilities, set the following Net Benefit Caps:
1) 13.5 percent in 2017,
2) 12.0 percent in 2018, and
3) 10.0 percent in 2019.

D. For all utilities, set the following Conservation Improvement Plan (CIP) Expenditure Caps:
1) 40 percent in 2017,
2) 35 percent in 2018, and
3) 30 percent in 2019.

---

[2] For additional details, see also the Commission's December 20, 2012 Order in Docket No. E, G999/CI-08-133.
[3] Retail sales for this calculation exclude the retail sales to customers who are owners of a large customer facility and have been granted an exemption by the Department's Commissioner under Minnesota Statutes §216B.241, Subd. 1a(b).
[4] The quote shown here is limited to the sections relevant to natural gas utilities; the Commission's *Order* in Docket No. E,G999/CI-08-133 also modified the electric utility financial incentive calculation.

(2) The Commission retains certain provisions from the current Shared Savings DSM Financial Incentive Plan, with slight modifications, as follows:

A. CIP-exempt customers shall not be allocated costs for the new shared savings incentive. Sales to CIP-exempt customers shall not be included in the calculation of utility energy savings goals.

B. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.

C. If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.5 percent savings goal.

D. The energy savings, cost, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive.

E. The costs of any mandated, non-third-party projects (e.g., the 2007 Next Generation Energy Act assessments,[5] University of Minnesota Initiative for Renewable Energy and the Environment costs[6]) shall be excluded from the calculation of net benefits and energy savings achieved and incentive awarded.

F. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs,[7] solar installation,[8] and biomethane purchases[9] shall not be included in energy savings for DSM financial incentive purposes.

(3) The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.

(4) Utilities may discontinue the annual February 1 compliance filing because a scale of net benefits will no longer be required since the Department's proposal sets percentages at certain savings thresholds and calibrates the mechanism to dollars per unit of energy.

2. Department's Review of the Great Plains 2018 Proposed DSM Financial Incentive

Based on its 2018 CIP results, Great Plains calculated a DSM financial incentive award of $0. The Company explained that its energy savings totaled 36,083 dekatherms (Dth or dk), resulting in a savings achievement level of 0.64 percent,[10] which fell short of the 0.7 percent required to

[5] *See* 2007 Laws, Article 2.
[6] *Id.*, § 3, subd. 6.
[7] Minn. Stat. § 216B.1636.
[8] Minn. Stat. § 216B.241, subd. 5a.
[9] *Id.*, subd. 5b.
[10] (36,083 Dth /56,274 Dth) = 0.6412. See Petition Attachment F for the Dth figures in the previous calculation.

receive the incentive. Great Plains reported that in 2018, the Company's CIP produced an estimated $1,235,357 of net benefits.[11] The Department confirmed Great Plains' calculation of the Company's energy savings achievement level and concludes that the Company did not qualify for the DSM financial incentive award in 2018.

The Department is also conducting on ongoing engineering-oriented analysis of the energy savings and net benefits reported in Great Plains' annual CIP filings.[12] This analysis will not be completed before the instant Comments are due. The lag between the Department's completion of its engineering analysis and its review of the DSM financial incentive, CIP tracker, and CCRA is typical and recurs from year to year.

Last year, as in previous years, the Department compensated for this lag by (1) assuming Great Plains' reported energy savings for 2017 were correct as filed and (2) planning to make any adjustments approved by the Department's Deputy Commissioner in the instant proceeding.

On September 17, 2018, the Deputy Commissioner approved Great Plains' 2017 Status Report without any adjustments in Docket No. G004/CIP-16-116.01, and thus none need to be made in the instant docket.

If, in Docket No. G004/CIP-16-121.02, the Department's Deputy Commissioner approves energy savings or net benefit amounts that differ from those disclosed in the 2018 Status Report, the Commission, upon considering Great Plains' 2019 CIP filing, may approve adjustments to the Company's 2018 Shared Savings DSM financial incentive or CIP tracker. The Company must submit its 2019 CIP filing by May 1, 2020.

C. GREAT PLAINS' CIP TRACKER ACCOUNT

In its Petition, Great Plains submitted for approval the recoveries and expenditures recorded in the Company's CIP tracker account during 2018. Table 1 provides a summary of these activities.

[11] See Attachment F of the Petition for each of the figures noted in this paragraph.
[12] The engineering-oriented analysis is conducted by the Department under Docket No. G004/CIP-16-121.02.

Table 1: Summary of Great Plains' CIP Tracker Account in 2018[13]

Item Description	*Time Period*	*Amount in Dollars $*
Beginning Balance	Jan. 1, 2018	224,198
CIP Expenditures[14]	Jan. 1 - Dec. 31, 2018	566,621
Recovery through Base Rates (CCRC)	Jan. 1 - Dec. 31, 2018	(406,059)
Recovery through CCRA	Jan. 1 - Dec. 31, 2018	(1,205,983)
Carrying Charges	Jan. 1 - Dec. 31, 2018	(9,581)
2017 DSM Financial Incentive	n/a	0
Ending Balance: (Over) or Under Recovery	**Dec. 31, 2018**	**(830,804)**

The Company reported using an annual carrying charge rate equal to the Company's short term cost of debt, which was approved in Great Plains' most recent rate case under Docket No. G004/GR-15-879. The annual rate in question is 1.610 percent, which, when divided by 12 months, results in the 0.13 percent carrying charge rate applied by the Company to the CIP tracker beginning balance for each month in 2018.[15] Great Plains CIP tracker balance showed an over-recovery of CIP costs for all months, except January, during calendar year 2018.

The Department concludes that the ending balance in the Company's CIP tracker is mathematically accurate, based on the data provided by Great Plains in Attachment E of its Petition. The Department recommends that the Commission approve Great Plains' 2018 CIP tracker, as summarized in Table 1.

D. GREAT PLAINS' CONSERVATION COST RECOVERY ADJUSTMENT

Minnesota Statutes 2016B.16., Subd. 6b(c) states that the Commission "may permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements." This CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment or CCRA. The Department reviews the CCRA proposed by Great Plains each year in the Company's annual CIP filing.

[13] The data in Table 1 is taken from pages 2 - 3 of Petition Attachment E.
[14] In 2018, Great Plains' reported CIP expenditures included $11,164 in CIP assessment charges from the Department of Commerce, Division of Energy Resources, related to "Technical Assistance, Research and Development (R&D) grants and Facilities Energy Efficiency fees." These expenses are not directly related to the Company's CIP but are tracked and recovered through the CCRC and CCRA charges to customers. See Petition at pages 11 - 12.
[15] See page 3 of Petition Attachment E. Dividing the figures under the column labeled "Carrying Charge 1/" by the corresponding figures under the column labeled "Beginning Balance" equals an applied carrying charge rate of 0.0013, or 0.13%.

1. *Great Plains' CCRA Proposal*

The CCRA would ideally be set at a rate that brings the Company's CIP tracker balance as close to zero as possible; doing so avoids significant over or under recovery of CIP costs by the Company. After observing the Company's relatively high CIP tracker balances over several earlier years,[16] the Department recommended in 2016 that Great Plains use a forward- rather than backward-looking methodology to calculate the Company's CCRA. Using a forward-looking methodology helps a utility maintain a CIP tracker balance closer to zero, minimize carrying charges, and account for CIP expense fluctuations. The Commission agreed with the Department's recommendations and directed the Company "to calculate the CCRA based on the existing tracker balance, as well as the projected sales, expenditures, financial incentive(s), and any pertinent adjustments that may occur over the period the CCRA will be in place."[17]

The Company's transition to using a forward-looking methodology appeared to have had the expected result on the 2017 year-end CIP tracker balance. In 2017, the beginning CIP tracker balance was equal to $1,060,837 million, and by yearend the balance had been reduced to approximately $224,198 (an under-recovery). In its current Petition for the 2018 CIP year, Great Plains reported an over-recovered CIP tracker balance of ($830,804). Accordingly, Great Plains has requested approval for a revised CCRA rate of ($0.0337) per Dth, which translates to a $0.0467 decrease from the current CCRA of $0.0130 per Dth.[18] The proposed CCRA was derived by assuming an over-recovery total of ($232,255)[19] over a 12-month period, with 6,888,294 Dth in sales. As a result of the requested CCRA decrease, the average residential customer using 77 Dth per year would pay a total annual CIP cost of $1.69, representing a $3.59 decrease from the current total annual CIP cost of $5.28.[20] The Company proposed that the new CCRA become effective September 1, 2019.

The Company has estimated that by the time its proposed CCRA would take effect on September 1, 2019, Great Plains' CIP tracker balance would be over the $0 ideal by ($748,341). This projection is shown in Table 2.

---

[16] In the Company's rate case in Docket No. G004/GR-15-879, the Company increased its CCRC beginning January 1, 2016 and incorrectly decreased the CCRA by the same amount, effective on the same date. This resulted in a negative CCRA, which moved the Company further from its CIP tracker balance goal of zero. The Department raised concerns about this treatment of the CCRA in the Company's CIP filing in Docket No. G004/M-16-384, and the Commission clarified in item 7 of its November 23, 2016 *Order* that the CCRA should only be adjusted after a thorough review of the Company's CIP tracker.

[17] Commission *Order* in Docket No. G004/M-16-384, item 6.

[18] See page 1 of Petition Attachment E.

[19] Great Plains confirmed via an email communication with the Department that a rounding difference caused the slight discrepancy between the projected over-recovery amount of ($232,255) shown on page 2 of Petition Attachment E and ($232,137) shown on page 4 of Petition Attachment E. The Department notes that this recovery amount is an estimate and believes this rounding difference to be immaterial.

[20] Total estimated annual CIP costs include both CCRC and CCRA charges. See page 1 of Petition Attachment E.

Table 2: Great Plains' Projected CIP Tracker Account with the Current CCRA Rate[21]

Item Description	*Time Period*	*Amount in Dollars $*
Beginning Balance	Jan. 1, 2019	(830,804)
CIP Expenditures	Jan. 1 - Aug. 31, 2019**	395,405
Carrying Charges	Jan. 1 - Aug. 31, 2019	(9,595)
Recovery through Base Rates (CCRC)	Jan. 1 - Aug. 31, 2019	(245,858)
Recovery through CCRA	Jan. 1 - Aug. 31, 2019	(57,489)
Ending Balance (Over) or Under Recovery	**Aug. 31, 2019**	**(748,341)**

***Projections for April through August 2019 are estimates.*

The projected data in Table 2 demonstrate that the Company anticipates reducing its December 31, 2018 CIP tracker balance an estimated $82,463[22] by August 31, 2019. The Department concludes that in order for the CIP tracker balance to be further and more rapidly reduced towards its $0 target, it is necessary and appropriate that the Company reduce its CCRA rate. Table 3 provides details behind Great Plains' calculation of its proposed CCRA rate of ($0.0337).

Table 3: Great Plains' Calculation of the Company's Proposed CCRA Rate

Item Description	*Time Period*	*Amount*
Beginning Balance	Sept. 1, 2019	$(748,341)
CIP Expenditures	Sept 2019 - Aug. 2020	$905,183
Carrying Charges	Sept 2019 - Aug. 2020	$(6,108)
Estimated Recovery through Base Rates (CCRC)	Sept 2019 - Aug. 2020	$(382,989)
DSM Financial Incentive	2018 calendar year	$0
Proposed Recovery through CCRA	Sept 2019 - Aug. 2020	$(232,255)
Projected Sales	Sept 2019 - Aug. 2020	6,888,294 Dth
Proposed CCRA Rate ($/Dth)	**Effective Sept. 1, 2019**	**($0.0337) $/Dth**

The Department supports the Company's proposal to implement a reduced CCRA rate of ($0.0337), as this will help Great Plains to reduce its CIP tracker balance and bring the balance closer to $0.

[21] Data in Table 2 retrieved from pages 2 and 4 of Petition Attachment E.
[22] ($830,804 – $748,341) = $82,463

2. *Customer Notification Method for the CCRA Proposal*

In Attachment A of its Petition, Great Plains provided a version of the relevant tariff sheet, updated to reflect the proposed CCRA rate. In addition to updating the relevant tariff sheet, the Department recommends that the Commission require the Company to include a message on its customer bills providing notification of any approved CCRA rate change. Specifically, the Department recommends that the Commission require Great Plains to include the following bill message in the billing month immediately following the date of the Order in the instant docket:

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

E. REVIEW OF GREAT PLAINS' DSM AND CIP DATA OVER TIME (2010 - 2018)

The Department's Attachment A to these Comments provides a historical comparison of Great Plains' DSM and CIP activities from 2010 through 2018. Attachment A shows how the Company's carrying charges, year-end tracker balances, DSM financial incentives, CIP expenditures, and energy savings have changed over time.

Great Plains' CIP expenditures and the corresponding energy savings have fluctuated each year between 2010 and 2018, without demonstrating a consistent increasing or decreasing pattern. In its cover letter to the current Petition, Great Plains cited lower participation in the Commercial and Industrial Program, including Custom Projects, as a reason for the variance between its actual CIP expenditures and those authorized for 2018. The Company further explained that the relatively low commodity price of natural gas has reduced the incentive for customers to participate in Commercial and Industrial conservation projects. Given the lower CIP participation and expenditures for 2018, it follows that the CIP energy savings would be lower as well. The Department's CIP engineering staff confirm that custom projects typically achieve higher energy savings than other project types, and at a relatively low cost. Project participation challenges will be assessed in the Department's subsequent engineering review of the Company's 2018 CIP Status Report.

Department Attachment A documents several other notable items. First, the CIP tracker account balance reached its highest over-recovered amount in 2018 (the highest *under*-recovered year-end balance was recorded in 2016). Second, the Company has failed to reach an energy savings achievement level that would allow it to qualify for the DSM financial incentive for two consecutive years in 2017 and 2018. In contrast, the Company received its largest DSM financial incentive amounts in 2015 and 2016.

III. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

Based on its review of the Great Plains Natural Gas Company's Petition, the Department recommends that the Commission take the following actions:

- Approve Great Plains Natural Gas Company's 2018 CIP tracker account, as summarized in Table 1 of the Comments, resulting in a 2018 CIP tracker balance of $(830,804);

- Approve a 2019/2020 CCRA rate of $(0.0337) per Dth, to be effective September 1, 2019, or the first day of the month following the Commission's Order in this matter;

- If the proposed CCRA rate is approved, require Great Plains Natural Gas Company to include the following bill message in the billing month immediately following the date of the Order in the current docket:

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

- Require Great Plains Natural Gas Company to submit a compliance filing, within 10 days of the issue date of the Order in the present docket, with revised tariff sheets reflecting the Commission's determinations in this matter.

/ja

Attachment A, Table 1: Great Plains' Historical CIP Achievements, Incentives, and Tracker Balance 2010 – 2018**

Line ID		A	B	C	D	E	F	G	H	I	J
Year	*Great Plains' CIP Docket Number*	*CIP Expenditures (Excluding Incentives)*	*Achieved Energy Savings (Dekatherms)*	*CIP Expenditures (Excluding Incentives) per Dekatherm Saved (A/B) = C*	*DSM Financial Incentive*	*Total CIP Cost per Dekatherm Saved (A+D)/B*	*DSM Financial Incentive as a % of CIP Expenditures (D/A) = F*	*Carrying Charges*	*Carrying Charges as a % of CIP Expenditures (G/A) = H*	*Year-End Tracker Balance*	*Year-End Tracker Balance as a % of CIP Expenditures (I/A) = J*
2010	11-404	$427,847	17,426	$24.55	$18,915	$25.64	4.4%	($7,527)	-1.8%	$52,659	12.3%
2011	12-439	$370,570	24,604	$15.06	$37,707	$16.59	10.2%	$10,979	3%	$324,363	87.5%
2012	13-334	$401,694	41,509	$9.68	$114,763	$12.44	28.6%	$24,008	6%	$369,299	91.9%
2013	14-358	$378,793	14,969	$25.31	$24,137	$26.92	6.4%	$27,097	7.2%	$397,382	104.9%
2014	15-422	$327,380	19,788	$16.54	$42,180	$18.68	12.9%	$9,732	3%	($49,755)	-15.2%
2015	16-384	$724,644	69,393	$10.44	$477,077	$17.32	65.8%	($1,094)	-0.2%	$241,051	33.3%
2016	17-338	$642,143	56,669	$11.33	$345,928	$17.44	53.9%	$2,346	0.4%	$1,060,837	165.2%
2017	18-118	$403,118	13,577	$29.69	$0	$29.69	0%	$8,659	2.1%	$224,198	55.6%
2018	19-287	$566,621	36,083	$15.70	$0	$15.70	0%	($9,581)	-1.7%	($830,804)	-146.6%

***The data in Table 1 above are documented as initially proposed by Great Plains and are not adjusted for later decisions.*