MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Volume II, Financial Issues

Meeting Date	August 4, 2020 (Oral Argument) August 6, 2020 (Deliberations)	Agenda Item 1**
Company	**Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co.**	
Docket Nos.	**G-004/GR-19-511** **In the Matter of the Petition by Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Authority to Increase Natural Gas Rates in Minnesota** **G-004/MR-19-512** **In the Matter of the Application of Great Plains Natural Gas Co. (Great Plains), a Division of Montana-Dakota Utilities Co., to Establish a New Base Cost of Gas and Reset the Purchased Gas Adjustment to Zero, to Coincide with the Implementation of Interim Rates in its General Rate Case Filing, in Docket No. G-004/GR-19-511**	

Issues

1. Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company?

2. What is the impact of Great Plains' proposed change to the Conservation Cost Recovery Adjustment (CCRA) Factor from the currently approved CCRA Factor amount of (.0337) to (.0599) in this general rate case rather than a Conservation Improvement Program Tracker/DSM financial incentive docket?

3. What, if any, impact was there from suspending the Gas Utility Infrastructure Cost (GUIC) rider and if the Company intends to continue use of the GUIC subsequent to the rate case?

4. Should the Commission approve Great Plains' revised base cost of gas?

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Relevant Documents **Date**

Relevant documents are listed on the cover page of Vol. I of the briefing papers.

References to the case record are provided in the footnotes in the briefing papers

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I. Statement of the Issues

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- What is the impact of Great Plains' proposed change to the Conservation Cost Recovery Adjustment (CCRA) Factor from the currently approved CCRA Factor amount of (.0337) to (.0599) in this general rate case rather than a Conservation Improvement Program Tracker/DSM financial incentive docket?

- What, if any, impact was there from suspending the Gas Utility Infrastructure Cost (GUIC) rider and if the Company intends to continue use of the GUIC subsequent to the rate case?

- Should the Commission approve Great Plains' revised base cost of gas?

II. Background

On September 27, 2019, Great Plains Natural Gas Co. (Great Plains, or the Company), a Division of Montana-Dakota Utilities Co., filed a general rate case requesting a net increase of approximately $2.86 million, or 12.0%.

On September 23, 2013, the Commission ordered an interim rate increase, subject to refund, of $2.6 million, or 10.98%, that went into effect as of January 1, 2020.

On July 8, 2020, Great Plains filed schedules reflecting the ALJ's recommendations. According to Great Plains, the ALJ Recommendations would result in a net revenue increase of approximately $2.68 million, or 11.7%.[1] The net increase for the residential class would be 15.4%.[2]

The above numbers are the base rate increase *net* of the revenues that would have been collected through the Gas Utility Infrastructure Cost Rider (GUIC) if that rider had not been suspended with the implementation of interim rates. Since the GUIC rider costs were rolled into base rates effective with the implementation of interim rates on January 1, 2020, the ALJ's recommendations would actually result in a base rate increase of approximately $3.47 million, or 15%. The higher increase is offset by the GUIC revenues that are no longer collected in the rider which results in the net increase of approximately $2.68 million, or 11.7%. The base rate increase to residential customers, *not* offset by GUIC revenues, would be approximately 19.2%.

[1] Great Plains' July 8, 2020 Compliance Filing at Exhibit 2, p. 2 of 19.

[2] Ibid.

III. Disputed Financial Issues

A. Industry Dues

This issue is disputed between Great Plains, the Department and OAG.

1. Great Plains

Great Plains included $41,872 in industry dues in the 2020 projected test-year expenses. Included in that amount were dues projected to be paid to (1) Minnesota Utility Investors (MUI) of $11,500, and (2) Edison Electric Institute of $464.[3]

2. Department

The Department believes that Great Plains has not shown that it is reasonable for ratepayers to pay for dues to the Minnesota Utility Investors Association and recommends excluding $11,500 of organization dues from test year expenses. According to the Department, the stated mission and activity of this organization does not align with the general regulatory principal that rate-recoverable expenses are those related to utility operations to benefit ratepayers.

In Surrebuttal, the Department argued that:[4]

> [N]one of MUI's stated activities focus on recruiting additional equity investors. In cases where the Commission allowed 50 percent recovery of Investor Relations expenses, the Department, the Administrative Law Judges, and the Commission agreed that there was benefit to ratepayers from a portion of the Investor Relations activities (*e.g.* maintaining shareholder records, recruitment of equity capital), as seeking new investors keeps utility financing costs reasonable.

The Department further argued that MUI's work does not enhance employee knowledge or skills in providing safe and reliable utility service, nor has it been shown to provide customer benefit.[5]

3. OAG

The OAG argues that costs associated with an electric industry association should not be paid by Minnesota gas ratepayers, thus the dues for Edison Electric Institute should be disallowed. Further the OAG argues that because the Minnesota Utility Investors organization represents the interests of utility investors rather than utility customers, the dues to this organization

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[3] Ex. GP-2 (Vol. III, Statement C, Schedule C-2, at 20 of 27) (Sept. 27, 2019).

[4] Ex. DOC-14 at 8 (Byrne Surrebuttal).

[5] *Id*. at 9.

should also be disallowed. The OAG recommended that the dues for both Edison Electric Institute and for Minnesota Utility Investors, totaling $11,964 be removed from the test year.[6]

4. Great Plains Rebuttal

Great Plains stated, Minnesota Utility Investors (MUI) "focuses on legislation and regulatory policy that impacts utilities and, directly and indirectly, impacts utility customers." Great Plains argued that 35 percent of the annual dues to MUI was related to lobbying and that amount was not included in the $11,500 that Great Plains requested in the test year. "Therefore a portion of the annual dues has already been excluded and a further exclusion would unfairly harm the Company."[7]

Great Plains stated, "Ms. Byrne [Department] did acknowledge that the Commission has allowed 50 percent of Investor Relations expenses and, at a minimum, Great Plains should be allowed to recover at least 50 percent of the [MUI] dues to [sic] as a way to acknowledge customer benefits."[8]

With respect to the Edison Electric Institute's (EEI) dues of $464 that the OAG also recommended should be excluded from the test year, Great Plains clarified that, although the dues were paid to EEI, they were related to EEI's affiliate Utility Solid Waste Activities Group (USWAG). Great Plains witness Mr. Jacobson testified:

> USWAG is an informal consortium of utility companies and other organizations, including the American Gas Association (AGA).
>
> USWAG is responsible for addressing solid and hazardous waste issues on behalf of the utility industry and is utilized by Great Plains in a number of ways specifically for its natural gas operations.
>
> Great Plains continues to support the inclusion of the $464 in EEI dues and the $11,500 in MUI dues in its test year expenses.

5. ALJ Report

The ALJ discusses MUI and EEI dues in Findings 86 through 98, beginning on page 19 of her Report and concluded:

> 98. Minnesota Stat. § 216B.03 (2018) requires that rates be just and reasonable, and that any doubt as to reasonableness be resolved in the ratepayer's favor. Here, GP has failed to show that it is reasonable for ratepayers to pay for the dues

[6] Ex. OAG-1 at 7-9 (Lebens Direct).

[7] Ex. GP-23 at 3 (Jacobson Rebuttal).

[8] Ibid.

of the MUI and EEI. Accordingly, the Judge recommends excluding these dues, totaling $11,964, from the calculation of GP's revenue requirement.

6. Exceptions to the ALJ Report

The OAG agrees with the ALJ's conclusions regarding the disallowance of the MUI and EEI dues, but recommended minor modifications to the MUI portion of the ALJ's findings to support the ALJ's disallowance of the MUI dues as follows:

> The OAG recommends that the text of Finding 91 be modified to correct the following inadvertent use of the word "present" instead of "represent":
>
> 91. According to GP, the MUI is:
>
> a grassroots organization, established in 1990, to ~~present~~ represent the interests of individuals and business investors owning shares in utility companies operating in Minnesota. MUI's principal objective is to enhance the voice and impact of utility shareholders in the development of federal, regional, and state legislative and regulatory policy.[143]
>
> The OAG recommends that the text of Finding 93 be modified to correct the following inadvertent omission of the word "current" from the description of utility shareholders who are eligible for voluntary membership in the MUI:
>
> 93. As a trade organization, membership in the group is optional[146] and limited to current utility shareholders.[147] It exists to advance the interests of investors, not ratepayers.
>
> The OAG recommends a modification to Finding 92, footnote 145, which appears to have inadvertently omitted a page in the applicable range:
>
> [145] *Id.* at 8–9, ACB-3.
>
> Finally, the OAG recommends modifications to Finding 95, footnotes 149 and 150, to replace the current citations with citations that more directly support the ALJ's findings:
>
> [149] ~~Ex. DER-14 at 9, ACB-3 (Byrne Surrebuttal).~~ Ex. GP-21, TRJ-1 at 3 (Jacobson Direct); Ex. DER-6 at 9 (Byrne Direct).
>
> [150] ~~*Id.*~~ Ex. OAG-1 at 8 (Lebens Direct); Ex. OAG-2 at 8–9 (Lebens Surrebuttal); Ex. DER-6 at 9 (Byrne Direct); Ex. DER-14 at 8–10 (Byrne Surrebuttal).

7. Staff Analysis

Staff agrees with the ALJ and the OAG that both the MUI and EEI should be disallowed.

8. Decision Alternatives

200. Disallow the Minnesota Utility Investors (MUI) dues of $11,500. [Department, OAG, ALJ]

201. Disallow the Edison Electric Institute (EEI) dues of $464. [OAG, ALJ]

202. Allow the MUI and EEI dues. [Great Plains]

B. Incentive Compensation Annual Report/Potential Refund

"The Company and Department agree that Great Plains' test-year level of incentive compensation amount of $261,892 based on a 100 percent target level capped at 15 percent of salary is a better match than a three-year average, but disagree regarding the Department recommend[ation] that the Commission require the Company to refund to ratepayers annual incentive compensation included in base rates and collected from ratepayers but not paid to employees, and that the Company file an annual report demonstrating compliance. The OAG has not taken a position in this proceeding on this issue."[9]

1. Department

The Department agreed that Great Plains included a reasonable amount of incentive compensation in the test year, but recommended that the Commission require Great Plains to file an annual report on incentive compensation and refund to ratepayers all incentive compensation amounts approved by the Commission and included in base rates that are not paid out to employees under the program. The Department also stated, "To determine the amount of actual incentive compensation paid that is recoverable from ratepayers, the Company should apply the 15 percent cap to each employee's salary."[10]

The Department argued that, since the Company's proposed test year incentive compensation expense was based upon all employees earning their individual 100 percent of target-level incentive compensation (capped at 15 percent of salary), it is reasonable for the Company to refund to ratepayers the amount of incentive compensation that is approved and included in base rates but is not paid annually to employees under the program.

To accomplish this, the Department recommended that the Commission require Great Plains to file an annual report on incentive compensation within 30 days after incentive compensation is normally scheduled for payout. The report should include at a minimum the following:[11]

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[9] Joint Issues Matrix, p. 3.

[10] Ex. DER-7 at 9 (Lusti Direct).

[11] Ex. DER-7 at 9-10 (Lusti Direct).

A. A description of the incentive compensation plan;
B. The accounting of amounts of unpaid incentive compensation built into rates to be returned to ratepayers;
C. An evaluation of the incentive plan's success in meeting its stated goals, including the payout ratio;
D. A proposal for refund, if applicable; and
E. Identification of each performance indicator and its associated scorecard information, such as the measure, the goal for various attainment levels (threshold, target, maximum), its funding weight and the actual result achieved; and to report the overall plan payout percentage attained relative to the target goal of 100%.

Further, the Department argued that the Commission currently requires Northern States Power Company d/b/a Xcel Energy, Minnesota Power, and Center Point Energy to file annual incentive compensation reports.

The Department stated an annual report is needed because Great Plains has the ability to not pay any incentive compensation in any given year if it so chooses. In fact, in 2015, Great Plains chose not to pay any incentive compensation.[12]

2. Great Plains

Great Plains argues:[13]

> Each year the Company's expenses vary from the projected level of expense with a general trend of increasing costs, for instance labor costs will likely increase about the same time rates from this proceeding are approved. Mr. Lusti's recommendation is a non-reciprocal, single-issue rate making proposal that should be rejected. Under Mr. Lusti's recommendation, Great Plains would be required to refund incentive expense amounts less than target; however, Mr. Lusti does not suggest that Great Plains may collect when incentive expenses are above target. Nor does he suggest that Great Plains be able to track increases in expenses, such as labor increases, and recover them in future periods. His proposal unfairly places an administrative burden on the Company and erodes its ability to earn a fair return.

3. ALJ Report

The ALJ addresses incentive compensation in her Findings 99 through 113 beginning on page 21 of her Report and she concluded:

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[12] Ex. DER-15 at 5 (Lusti Surrebuttal).

[13] Ex. GP-23 at 5-6 (Jacobson Rebuttal).

> 112. The Administrative Law Judge concurs with the recommendations of the DOC-DER. Ratepayers should not be responsible for costs that are not actually incurred by the utility. Given the Commission's past practice of requiring utilities to file incentive compensation reports, as well as GP's recent history of not paying such incentive compensation despite recovering such amount from ratepayers in 2015, it is reasonable to for the Commission to impose the conditions recommended by the DOC-DER.
>
> 113. Accordingly, the Administrative Law Judge adopts the amount of incentive compensation included in GP's proposed rate base for test year 2020 ($261,892). However, the Judge recommends that the Commission require the Company to file an annual report identifying the amount of incentive compensation actually paid out each year, along with the other information recommended by the DOC-DER. Upon review of the annual report, the Commission can then determine whether a refund to ratepayers is appropriate and what amount, if any, should be refunded.

4. Exceptions

Great Plains took exception to the ALJ's recommendation that the Commission require Great Plains to track incentive compensation paid and incurred for possible refund to customers on an annual basis.

Great Plains argued that:[14]

> The primary basis for the ALJ's recommendation is that the Commission requires Northern States Power Company, Minnesota Power and CenterPoint Energy to track and potentially refund incentive compensation included in rates but not paid on an annual basis. [Citation omitted.] Adoption of the ALJ's recommendation, however, would (1) sanction impermissible single-issue ratemaking; and (2) prejudice Great Plains' ability to recover the costs of providing service to customers due to the asymmetrical design.

Great Plains provided an example of how the tracking mechanism proposed by the Department and adopted by the ALJ can lead to "unjust and unreasonable results" by determining any refund liability on an annual basis without considering the amount of incentive compensation expense included in rates that was paid over the entire period rates resulting from this rate case are in effect.

Great Plains also argued that the tracking mechanism adopted by the ALJ could prevent Great Plains from recovering its costs of providing service by determining any refund liability on an annual basis without considering whether any amount of incentive compensation expense not paid was offset by increases in other expenses.

[14] Great Plains Exceptions to the ALJ's Report, p. 6.

Finally, Great Plains argued, "[t]here is no basis to require Great Plains to track incentive compensation expense; it is inconsistent with the treatment of such expenses in Great Plains last rate case and not supported by the record in this case."[15]

5. Decision Alternatives

203. Allow the $261,892 of incentive compensation included in Great Plains 2020 test year. [Great Plains, Department, ALJ]

204. Require Great Plains to file an annual report on incentive compensation and refund to ratepayers all incentive compensation amounts approved by the Commission and included in base rates that are not paid out to employees under the program. To determine the amount of actual incentive compensation paid that is recoverable from ratepayers, the Company shall apply the 15 percent cap to each employee's salary. The annual Incentive Compensation Report shall include at a minimum the following: [Department, ALJ]

    A. A description of the incentive compensation plan;
    B. The accounting of amounts of unpaid incentive compensation built into rates to be returned to ratepayers;
    C. An evaluation of the incentive plan's success in meeting its stated goals, including the payout ratio;
    D. A proposal for refund, if applicable; and
    E. Identification of each performance indicator and its associated scorecard information, such as the measure, the goal for various attainment levels (threshold, target, maximum), its funding weight and the actual result achieved; and to report the overall plan payout percentage attained relative to the target goal of 100%.

C. Rate Case Expense (Partially Disputed)

Great Plains and the Department agree on the amount of rate case expense that should be recoverable through rates and the amortization period, but disagree on whether Great Plains should track any over-recovery of rate case expenses for credit to the revenue requirement in its next rate case. The OAG has not taken a position in this proceeding on this issue.[16]

1. Department

The Department does not challenge Great Plains' estimate of the cost of the current rate case, $592,555, and agrees with Great Plains' proposed four- year amortization period. However, the Department recommends that Great Plains track any over-recovery of rate case expenses for

[15] *Id*. at 8.

[16] Joint Issues Matrix, p. 3.

credit to the revenue requirement in its next rate case, consistent with the Commission's decision in Great Plains' last rate case.[17]

2. Great Plains

Great Plains argues:[18]

> [T]he [Department's] recommendation equates to single issue rate making and should be rejected. During the course of the four-year amortization period it is likely all expenses will change and it is not appropriate to select only one expense and require the Company to track it.

3. ALJ Report

The ALJ addresses rate case expenses in her Findings 114 through 117 and concludes:

> 117. The Administrative Law Judge rejects GP's argument. As with incentive compensation not paid, the Judge recommends that the Commission require the Company to track and calculate the final rate making expenses, and then credit back any amount exceeding $592,555 in its next rate case.

4. Exceptions

There were no exceptions to the ALJ's Report on Rate Case Expenses.

5. Decision Alternatives

205. Great Plains shall use a four-year amortization period for its rate case expenses, and shall track any over-recovery of rate case expenses for credit to the revenue requirement in its next rate case. [Department, ALJ]

206. Great Plains shall use a four-year amortization period for its rate case expenses. [Great Plains]

IV.Undisputed and Resolved Financial Issues

A. Test-Year Rate Base

[17] Ex. DER-7 at 13-14 (Lusti Direct).

[18] Ex. GP-23 at 6 (Jacobson Rebuttal)

The Department and the Company agree on the 2020 test-year average rate base for the Company of $32,617,028, which represents an increase from the Company's filed average rate base of $31,686,174. The OAG has not taken a position in this proceeding on this issue.[19]

Test-year rate base is a projection, consisting of the average of the 2020 projected beginning and ending rate base balances.[20] In Direct Testimony, Department witness Angela Byrne recommended that "Great Plains provide the actual 2019 end-of- year rate base balances in its Rebuttal Testimony, and propose an adjustment to its 2020 test-year average rate base to reflect this update."[21]

In Surrebuttal Testimony, the Department recommended that the revenue requirement approved in this proceeding be based on Great Plains' update of its 2020 beginning rate base balance to the actual amount, and that the Company's projected 2020 additions be held at the level the Company proposed in its initial case (in the amount of $4,645,785).[22]

Great Plains agreed to the Department's recommendations.[23] The adjustment for the 2019 year-end update resulted in an increase to the test-year rate base of $930,854.[24]

1. ALJ Report

The ALJ addressed test year rate base in her Findings 148 through 151. She concluded:

> 151. The DOC-DER recommends that the Commission approve this adjustment as just and reasonable. [Citation omitted.]

2. Exceptions

There were no exceptions or clarifications to ALJ Findings 148 through 151.

3. Decision Alternatives

207. Approve the Department recommended adjustment for the 2019 year-end update resulting in an increase to the test-year rate base of $930,854. [Department, Great Plains agreed to]

B. Cash Working Capital

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[19] Joint Issues Matrix, p. 3.

[20] Ex. DER- 6 at 17 (Byrne Direct).

[21] Ibid.

[22] Ex. DER-14 at 15 (Byrne Surrebuttal)

[23] Ex. GP-24 at 3 (Jacobson Summary)

[24] Ex. DER-15 at 2, DVL-S-8, column (c) (Lusti Surrebuttal).

Great Plains did not calculate a cash working capital component or include one in its rate base.[25] "Although most investor-owned utilities perform a lead/lag study to calculate their cash working capital component of rate base, Great Plains historically has not performed such a study."[26]

The Department concluded that there was no need for the Company to be required to perform such a study at this time.[27]

1. ALJ Report

The ALJ addressed Cash Working Capital in her Findings 152 through 153, concluding with Finding 153 as follows:

> 153. The DOC-DER concluded that there was no need for the Company to be required to perform such a study for the purposes of this rate case. [Citation omitted]

2. Exceptions

There were no exceptions to this section of the ALJ's Report.

3. Decision Alternatives

208. Take no action.

209. Adopt the ALJ Finding No. 153.

210. Require Great Plains to conduct a lead/lag study and include a cash working capital component in its next rate case. [Staff added alternative.]

C. Benefits Expense

"The Department and the Company agree on the 2020 test-year benefits expense of $688,717, which represents an overall downward test-year adjustment of $38,897 from Great Plains' filed case. The OAG has not taken a position in this proceeding on this issue."[28]

[25] Ex. DER-7 at 6-7 (Lusti Direct).

[26] *Id*. at 7.

[27] Ex. DER-7 at 7 (Lusti Direct).

[28] Joint Issues Matrix, p. 4.

The Department recommended that Great Plains proposed test year benefits expense of $727,614 be adjusted downward by $38,897. The Department based this recommendation on calculating the 2020 test year benefits expense "by using the actuarial estimates for Pension and Post-Retirement Benefits and applying the Company's proposed six percent increase for the Medical/Dental category and three and a half percent increase for 401(k), Workers Compensation, and Other Benefits to the updated projected 2019 amounts provided in response to the Department's IR No. 106."[29]

Great Plains agreed with the Department's recommended reduction to test year benefits expense.[30]

1. ALJ Report

The ALJ addressed benefits expense in Findings 118 through 124 of her Report. She concluded in Finding 124 as follows:

> 124. GP agreed with the DOC-DER adjustments, which reduce the Company's initially-proposed 2020 test year benefits expense of $727,614 by $38,897, to a final figure of $688,717. Accordingly, the parties agree to a revised total benefits expense total of $688,717, which should be used to determine the Company's total revenue requirement. [Citations omitted.]

2. Exceptions

There were no exceptions or clarifications to ALJ Findings 118 through 124.

3. Decision Alternatives

211. Take no action.

212. Adopt the ALJ's Findings Nos. 118 through 124.

213. Require Great Plains to reduce its proposed test year test year benefits expense of $727,614 by $38,897, to a final figure of $688,717.

D. Subcontract Labor Expense

"The Department and the Company agree on the 2020 test-year subcontract labor expense of $444,168, which represents an overall downward test-year adjustment of $81,397 from Great

[29] Ex. DER-6 at 6-7 (Byrne Direct).

[30] Ex. GP-23 at 3-4 (Jacobson Rebuttal).

Plains' proposed test-year expense. The OAG has not taken a position in this proceeding on this issue."[31]

1. Great Plains

Great Plains estimated its 2019 subcontract labor expense to be $515,563, and then applied a 1.94 percent inflation factor to arrive at its proposed test-year amount of $525,564.

2. Department

The Department requested Great Plains provide the 2016 through 2018 actual subcontract labor expense, as well as an updated 2019 projection. Based on Great Plains response, the Department provided the following table in its direct testimony.[32]

Table 4: Historical and Updated Subcontract Labor

Year	Amount
2016 Actual	$399,118
2017 Actual	$416,029
2018 Actual	$464,187
Updated Projected 2019	$435,715
2020 Proposed Test Year	$525,564

The Department noted that the "expense increased from 2016 to 2018, but the updated projection for 2019 is now a decrease in expense from 2018. Further, the updated projection for 2019 is nearly $80,000 less than the projection provided in Great Plains' Initial Filing."[33]

According to the Department, Great Plains has not justified why its proposed test-year Subcontract Labor Expense is so much higher than the previous four years.

Because Great Plain's historical expenses increased each year through 2018, the Department recommended that the 2020 test-year Subcontract Labor expense be set at $444,168, which is 1.94 percent more than the updated 2019 projected amount. This is a downward adjustment of $81,397 from Great Plains' proposed test year amount of $525,564.[34]

In Rebuttal Testimony, Great Plains agreed with the Department's recommended reduction to subcontract labor expense.[35]

[31] Joint Issues Matrix, p. 4.

[32] Ex. DER-6 at 12 (Byrne Direct).

[33] Ibid.

[34] *Id*. at 12-13.

[35] Ex. GP-23 at 4 (Jacobson Rebuttal).

3. ALJ Report

The ALJ addresses subcontract labor expense in her Findings 125 through 131. She concluded:

> 131. The estimated financial impact of this stipulated reduced test-year operation and maintenance (O&M) expenses (of which subcontracted labor is a part) is a reduction of $81,397 in the revenue requirement. [Citation omitted.]

4. Exceptions

There were no exceptions to ALJ Findings Nos. 125 through 131.

5. Decision Alternatives

214. Take no action.

215. Adopt the agreement between the Department and Great Plains.

216. Require Great Plains to reduce its proposed test-year subcontract labor expense by $81,397.

E. Conservation Improvement Program (CIP) Expense and Conservation Cost Recovery Adjustment (CCRA) Factor

In its Notice and Order for Hearing, the Commission asked the parties to develop a record on the impact of Great Plains' proposed change to the Conservation Cost Recovery Adjustment (CCRA) Factor from the currently approved CCRA Factor amount of (.0337) to (.0599) in this general rate case rather than a Conservation Improvement Program Tracker/DSM financial incentive docket.

1. CIP Expense

Great Plains proposed to include $566,621 in CIP expense in its 2020 test year, which is the same amount as its 2018 actual CIP expense.[36] Great Plains used 2018 actual expenses, instead of the budget, because of the extension of the new CIP Portfolio to 2021. "Any differences from the base will be returned to or collected from customers through the CCRA."[37]

The Department agreed that the 2018 amount of $566,621 was the appropriate amount to include in the 2020 test year, because it noted that according to Great Plains' CIP Status Reports, Great Plains typically spends less than its authorized CIP budget. "Any spending variances can be collected through the CCRA Factor, which is examined annually."[38]

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[36] Ex. GP-2 (Initial Filing, Vol. III, Statement C, Schedule C-2, at 17 of 27) (Sept. 27, 2019)

[37] Ex. GP-21 at 20 (Jacobson Direct)

[38] Ex. DER – 6 (Byrne Direct, p. 14)

2. Conservation Cost Recovery Adjustment (CCRA) Factor

Great Plains proposed to adjust the CCRA Factor in this rate case so that, combined, the CCRC and the CCRA would recover the same amount as the CCRC and the CCRA Factor, combined recovered prior to the rate case.[39]

The Department concluded that Great Plains' proposal is unreasonable because the CCRA should only be adjusted after a thorough review of the current CIP tracker balance. Here, Great Plains did not provide the CIP tracker balance information as support for its proposed change to the CCRA factor.[40]

The Department recommended that the Commission: (1) approve Great Plains' proposed level of CIP expense (as the basis for its CCRC rate), and (2) deny Great Plains' request to update its CCRA Factor in this proceeding as the "Commission will consider an update to the CCRA Factor in the Company's upcoming annual CIP tracker and financial incentive filing to be submitted by May 1, 2020."[41]

Great Plains agreed with the Department that the appropriate time to update its CCRA is in its next CIP tracker filing to be filed no later than May 1, 2020.[42]

3. ALJ Report

The ALJ addresses CIP expense and the CCRA factor in her Findings 132-139. She concluded and recommended:

> 138. Thus, the DOC-DER and GP agree that the Company's proposed CIP expense of $566,621 should be used as the basis for its CCRC rate and that any changes to the CCRA Factor should be determined in the Company's next annual (2020) CIP tracker and financial incentive proceeding, rather than in the instant rate case. [Citations omitted.]
>
> 139. The Administrative Law Judge recommends that the Commission adopt this jointly-supported proposal.

4. Exceptions, Clarifications and Corrections

a. Great Plains

[39] Ex. GP-31 (Bosch Direct, p. 12)

[40] Ex. DER - 6 (Byrne Direct, pp. 15-16)

[41] Ex. DER - 6 (Byrne Direct, p. 21)

[42] Ex. GP- 32 (Bosch Rebuttal, p. 2)

Great Plains proposed the following revisions to the ALJ's Summary of Recommendation, and Recommendation 8:

Summary of Recommendation (p 4):

> Finally, the Judge recommends that the Company's proposed Conservation Improvement Program (CIP) expense of $566,621 be used as the basis for its Conservation Cost Recovery Charge ~~Adjustment~~ (CCRC~~A~~) rate and that any changes to the Conservation Cost Recovery Adjustment (CCRA) factor should be determined in the Company's next annual CIP tracker and financial incentive proceeding, rather than in the instant rate case.

Recommendation 8

> Use the Company's proposed CIP expense of $566,621 as the basis for its CCRC~~A~~ rate and require that any changes to the CCRA factor be determined in the Company's next annual CIP tracker and financial incentive proceeding.

b. Department

The Department recommended the following revisions to the ALJ's Report:

> [Page 4 – Summary of Recommendation] Finally, the Judge recommends that the Company's proposed Conservation Improvement Program (CIP) expense of $566,621 be used as the basis for its Conservation Cost Recovery ~~Adjustment (CCRA)~~ Charge (CCRC) rate and that any changes to the Conservation Cost Recovery Adjustment (CCRA) factor should be determined in the Company's next annual CIP tracker and financial incentive proceeding, rather than in the instant rate case.
>
> [Findings of Fact] 134. Based upon this data, the DOC-DER concluded that the Company's proposal of $566,621 was reasonable to include in the 2020 test year CIP expenses, because that amount reflects actual 2018 CIP expenditures.[218] The DOC-DER further opined that it would be unreasonable for the Company to include in the test year expenditures the amounts that GP budgeted for 2019 because, historically, the Company spent less than budgeted.[219] Moreover, any amounts incurred over the 2018 actual expenses incurred could be collected through the CCR~~C~~A Factor each year. [220]
>
> [Recommendation] 8. Use the Company's proposed CIP expense of $566,621 as the basis for its CCR~~A~~C rate and require that any changes to the CCRA factor be determined in the Company's next annual CIP tracker and financial incentive proceeding.

5. Staff Analysis

The Department had the same recommended revisions as Great Plains to the ALJ's Summary of Recommendation on page 4, and the ALJ's Recommendation 8. The Department also recommended a correction to ALJ Finding 134. Staff agrees with the ALJ Report with all of the recommended corrections to this issue.

6. Decision Alternatives

217. Approve Great Plains' proposed CIP expense of $566,621 as the basis for the CCRC base rate and require that any changes to the CCRA factor be determined in Great Plains 2020 annual CIP tracker and financial incentive proceeding. [Great Plains, Department]

218. Adopt the ALJ's Report with the above identified corrections to the ALJ's: Page 4 – Summary of Recommendation, Findings of Fact 134, and Recommendation 8.

F. Continuation of Gas Utility Infrastructure (GUIC) Rider

In its November 22, 2019 Order issued in this proceeding the Commission required that parties develop a record regarding, "the impact of suspending the Gas Utility Infrastructure Cost (GUIC) rider and if the Company intends to continue use of the GUIC subsequent to the rate case." Great Plains discussed in its Initial Filing that it rolled its GUIC rider revenue requirements into its rate case at the beginning of its proposed 2020 test year. The Department and Great Plains agree that rolling the rider revenue requirements in at the beginning of the test year leaves less opportunity for double-recovery by eliminating the need for a corresponding adjustment in the interim rate refund calculation. Great Plains also stated that it intended to continue using the GUIC rider for future recovery of eligible projects beginning in 2021. The OAG has not taken a position in this proceeding on this issue.[43]

Department witness Angela Byrne testified:[44]

> Great Plains initially planned to continue its GUIC rider during its rate case and incorporate the revenue requirement from rider-eligible assets at the end of the rate case. However, upon requests from myself and other Department analysts, the Company agreed to roll its rider revenue requirements into its rate case at the beginning of its test year. Whether a utility incorporates its rider-eligible revenue requirements at the beginning of its test year or at the end ultimately has the same financial effect. However, rolling the rider revenue requirements in at the beginning of the test year leaves less opportunity for double-recovery by eliminating the need for a corresponding adjustment in the interim rate refund calculation.

[43] Joint Issues Matrix, p. 6.

[44] Ex. DER – 6 (Byrne Direct, p. 18)

> Incorporating the rider revenue requirements at the beginning of a utility's test year consists of two steps: First, revenue to be collected through the rider during the test year is set to zero, and is instead included in interim rates; and second, the revenue requirements (expenses) related to the rider-eligible assets are included in the utility's test year revenue deficiency. While it may appear that rolling in a rider increases a utility's revenue requirements, practically speaking the net effect on ratepayers is zero. This process merely changes the mechanism for recovery of previously-approved revenue requirements from the rate rider factor to base rates.

Further, regarding whether Great Plains intends to use the GUIC rider subsequent to the rate case, Ms. Byrne testified:[45]

> Yes. In response to Department IR No. 102, Great Plains stated:
>
> > The Company plans to file an update in the Spring of 2020 that will focus on the true up of the over- or under-recovery in the rider's tracker balance as of December 31, 2019. The Company also plans to continue to utilize the GUIC rider for future recovery of GUIC-eligible projects beginning in 2021.

According to Ms. Byrne, Great Plains' actions and explanation of its intentions regarding the GUIC rider align with her understanding of how the rider should interact with Great Plains' rate case.

1. ALJ Report

The ALJ addresses the GUIC rider in her Findings 140 through 147. She concluded as follows:

> 147. The DOC-DER concluded that the Company's actions, and its explanation of intentions regarding its GUIC rider, align with the DOC-DER's understanding of how the GUIC rider should interact with GP's rate case. [Citation omitted.] The OAG did not take a position on the issue of the GUIC rider.

2. Exceptions and Clarifications

No party filed exceptions or clarifications to this part of the ALJ's Report.

3. Decision Alternatives

219. Take no action.

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[45] *Id.*, at 18-19.

G. Bonus Expense

Great Plains included $9,509 for bonuses and commissions in in its 2020 test year expenses.[46]

The Department agreed that $9,509 was a reasonable amount to include in test year expenses for bonuses and commissions because the costs included sign-on and relocation bonuses, referral awards, retirement awards, and service awards,[47] but not long-term incentive compensation.[48]

1. ALJ Report

The ALJ addresses bonus expense in her Findings 154 through 155.

2. Exceptions

There were no exceptions to this section of the ALJ's Report.

3. Decision Alternatives

220. Take no action.

H. Interest Expense Synchronization

Great Plains calculated its interest expense deduction for test year income tax purposes by multiplying its rate base by the weighted cost of long-term and short-term debt, which is 2.277 percent.[49]

The Department agreed with this calculation method.[50] In Surrebuttal Testimony, the Department calculated[51] and recommended a decrease in test-year income tax expense of $6,092 for interest synchronization.[52]

1. ALJ Report

The ALJ addresses Interest Expense Synchronization in her Findings 156 through 158.

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[46] Ex. GP-2 (Vol. III, Statement C, Schedule C-2, at 10 of 27) (Sept. 27, 2019); Ex. DER-7 at 12-13 (Lusti Direct).

[47] Ex. DER-7 at DVL-9 (Lusti Direct); (GP Response to DOC-DER IR No. 117).

[48] *Id*. At 13 (Lusti Direct).

[49] Ex. GP-2 (Statement C, Operating Income, Schedule C-5 at 2 of 5) (Sept. 27, 2019); Ex. GP-21 at 25 (Jacobson Direct); Ex. DER-7 at 15 (Lusti Direct).

[50] Ex. DER-7 at 15 (Lusti Direct).

[51] Ex. DER-15 at DVL-S-7 (Lusti Surrebuttal).

[52] *Id*. At 8.

2. Exceptions

There were no exceptions to this section of the ALJ's Report.

3. Staff Analysis

Usually, the interest expense synchronization adjustment needs to be updated based on the Commission's decisions as to the appropriate total rate base and the cost of long-term and short-term debt. In this case, if the Commission approves what appears to be the agreed upon rate base amount of $32,617,028, and the weighted cost of debt of 2.277%, the adjustment will be the $6,092 decrease in test-year income tax expense recommended by the Department.

4. Decision Alternatives

221. Take no action.

222. Require Great Plains to update the interest synchronization adjustment based on the Commission's decisions in this case.

I. Base Cost of Gas and Related Financial Adjustments

With every rate case petition a natural gas utility must accompany its petition with a miscellaneous rate change petition to re-set its base cost of gas rates in its Purchased Gas Adjustment (PGA). The base cost of gas is further adjusted monthly through the PGA for any differences between the base cost of gas and current gas costs.

1. Background

Minnesota Rules 7825.2700, subpart 2 requires:

> A new base gas cost must be submitted as a miscellaneous rate change to coincide with the implementation of interim rates during a general rate proceeding. A new base gas cost must also be part of the rate design compliance filing submitted as a result of a general rate proceeding. The base gas cost must separately state the commodity base cost and the demand base cost components for each class. The base gas cost for each class is determined by dividing the estimated base period cost of purchased gas for each class by the estimated base period annual sales volume for each class.

On September 27, 2019, concurrently with its general rate case filing, Great Plains filed a miscellaneous petition to establish a new base cost of gas for the interim rate period (docket 19-512), showing total gas costs of $13,869,562. The Department recommended approval and also recommended minor corrections to the Company's tariff sheets and requested that Great Plains be required to update its cost of gas information in this docket as well as in the general rate case docket to reflect anticipated minor changes to the total demand costs resulting from a capacity release.

The Commission's November 22, 2019, ORDER APPROVING BASE COST OF GAS in docket 19-512, approved Great Plains' new base cost of gas. Further, the Commission required Great Plains to "provide updated cost of gas information in this proceeding and in its companion general rate case and work with Commission staff to determine the appropriate timing for providing this information, and to determine whether the updated information should be applied to Great Plains' base cost of gas and reflected in the accompanying general rate case."

Great Plains filed an informational update on February 13, 2020 stating that there was an approximate 6.3 percent increase in gas costs. Great Plains acknowledged that the base cost of gas will need to be updated prior to the final determination of rates in the case, but requested to delay implementing an update at this time to allow the pipeline companies additional time to establish final rates in their pending cases before the Federal Energy Regulatory Commission (FERC).

On July 8, 2020, concurrently with its filing of financial schedules reflecting the ALJ's Recommendation in the rate case docket 19-511, Great Plains submitted its New Base Cost of Gas – Update in docket 19-512 and included it in with financial schedules submitted in the rate case.

On July 16, 2020 the Department filed comments in this docket and the rate case docket 19-511, and stated:

> Great Plains Natural Gas Co (Great Plains or the Company) filed the requested "Schedules Reflecting the ALJ's Recommendation" (Compliance) on July 8, 2020. Included in its Compliance, the Company provided the base cost of gas, the test year revenue requirement, the class revenue allocations, and the rate design as recommended by the Administrative Law Judge (ALJ).
>
> The Department has reviewed the Compliance and concludes that Great Plains' schedules accurately reflect the ALJ's recommendations.

2. Staff Analysis

Great Plains included its updated base cost of gas of $13,070,526 in the financial statements reflecting the ALJ's recommendations.

Staff provides a comparison of the updated base cost of gas rates to those in the initial base cost of gas filing in the table below:

Base Cost of Gas Comparison			
	Initial Petition	7-8-20 Update	Difference
Firm			
Commodity Rates	$2.6354	$2.2337	($0.4017)
Demand Rates	$1.2178	$1.4568	$0.2390
Total Firm	**$3.8532**	**$3.6905**	($0.1627)
Interruptible			
Commodity Rates	$2.6354	$2.2337	($0.4017)
Demand Rates	$0.3453	$0.3950	$0.0497
Total Interruptible	**$2.9807**	**$2.6287**	**($0.3520)**

In the July 8, 2020 filed financial schedules for the updated base cost of gas adjustment, Great Plains reduced the Cost of Gas by $799,036, from the test year as filed of $13,869,562 to the updated base cost of gas of $13,070,526. Great Plains also (1) reduced late payment interest income by $2,237 to maintain the ratio of 0.28% of projected revenues, and (2) reduced uncollectible accounts expense by $4,235 to maintain 0.53% of projected sales revenue.

Based on the above table where the base cost of gas decreased, staff is of the opinion that the Commission may wish to require Great Plains to update its base cost of gas to the costs reflected in the July 8, 2020 Update (Compliance) Filing. The Commission may also wish to require Great Plains to update the late payment interest income and uncollectible accounts expense as it did in the July 8, 2020 filed financial schedules reflecting the ALJ's recommendations.

3. Decision Alternatives

223. Adopt Great Plains' updated base cost of gas as reflected in its July 8, 2020 Updated Base Cost of Gas (Compliance) filing and the Company's July 8, 2020 financial schedules reflecting the ALJ's recommendations.

and

224. Adopt Great Plains' related adjustments to late payment interest income and uncollectible accounts expense as reflected in the Company's July 8, 2020 financial schedules reflecting the ALJ's recommendations.

225. Leave in place the $13,869,562 base cost of gas previously approved for interim rates.