The Commission met on **Friday, August 5, 2016,** with Chair Heydinger and Commissioners Lange, Lipschultz, Tuma, and Schuerger present.

The following matters were taken up by the Commission:

ENERGY AGENDA

G008/GR-15-424
In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota

Commissioner Lange moved to deny CenterPoint's petition for reconsideration.

The motion passed 5–0.

G-004/GR-15-879
In the Matter of the Petition by Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc., for Authority to Increase Natural Gas Rates in Minnesota

1. Accuracy of Rate-Base Data

Commissioner Lange moved

- To find that the 2016 test year rate base shall be $16,836,799 as proposed by Great Plains; and

- To Reject ALJ Finding 177 and replace Finding 177 with the following (Great Plains' Exceptions, p. 28):

> 177. The 2015 Update was based on the actual average rate base from January to October 2015 – but estimates for November and December 2015. The Commission finds that the 2015 Update should only be used as a check on the reasonableness of the projected 2015 information contained in the initial Petition. A possible (not actual) 1.6% difference in projected 2015 rate base does not warrant an adjustment, but rather validates Great Plains' original projection in light of Great Plains' near-term planned investment in rate base.

The motion passed 5–0.

2. Variance in 2015 Other O&M Expenses Between Initially Filed 2015 and Updated 2015 Data

Commissioner Tuma moved

- To not accept either the ALJ's or the OAG's recommended reductions to Other O&M Expenses and replace ALJ Finding 119 with the following: [Great Plains]

> As for the remaining O&M expenses included in the test year, but which are not further broken down by the parties, the 2015 Update should only be used as a check on the reasonableness of the projected 2015 information contained in the Great Plains' initial Petition. The Commission finds that the small variance between projected 2015 expenses and the 2015 Update are minor and demonstrates the reasonableness of the Company's initial projections.

- To not accept ALJ Finding 116.

The motion passed 5–0.

3. Pension Expense

Commissioner Tuma moved to determine that test year pension expense should be set at the five-year (2010-2014) average of $7,401.

The motion passed 5–0.

4. Depreciation Expense

Commissioner Schuerger moved to accept test year depreciation expense of $1,729,126 as proposed by Great Plains.

The motion passed 5–0.

5. Rate Case Expense

Commissioner Lange moved

- To approve a four year amortization period of rate case expenses, and

- To require GPNG to track any over-recovery of rate case expense for credit to the revenue requirement in GPNG's next rate case.

The motion passed 5–0.

6. Incentive Compensation Expense

Commissioner Tuma moved to accept ALJ Findings No. 138 and 139 and reduce test year Employee Incentive Compensation by $89,032.

The motion passed 5–0.

7. Top Ten Employee Compensation and Expenses

Commissioner Lipschultz moved not to require the Company to make an adjustment in the amount of $22,219 to its test year Travel and Entertainment expenses to account for the OAG's position that the compensation and expenses of two of the top ten compensated employees are double counted.

The motion passed 5–0.

8. American Gas Association (AGA) and Chamber of Commerce Membership Dues

Commissioner Tuma moved to

- Disallow 100 percent, or $9,072, of AGA membership dues included in test year expenses; and
- Disallow 100 percent, or $522, of Minnesota Chamber of Commerce membership dues included in test year expenses; and
- Modify ALJ Report 201 footnote 164 to read:

> 164, n.210. *Id.* at 28. Findings of Fact, Conclusions, and Order, *In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-15-424, at 28 (June 3, 2016).

The motion passed 5–0.

9. Future Travel & Entertainment Expense Filing Requirements

Commissioner Lange moved to add, for clarity, Finding 546, as set forth below:

> 546. The OAG recommended, and Great Plains agreed, that the Commission require Great Plains to include detail from the most recently completed fiscal year in addition to a summary for each expense category of test year amounts, to provide information on the top-10 overall compensated employees and directors showing the allocated amounts to the Minnesota jurisdiction as well as the top-10 compensation and expenses for those individuals with the highest allocated cost to the Minnesota jurisdiction, and to provide a summary page showing the total amount from each detailed schedule for the last completed fiscal year and for the test year.

The motion passed 5–0.

10. Resolved Financial Issues

Commissioner Lipschultz moved

- *On unamortized loss on debt repurchased:*
    - To accept ALJ Findings 63 through 68; and
    - To require that, in future rate cases, if Great Plains has any Loss on Debt Repurchased, it should clearly identify the Debt Repurchased in its initial filing, explain the relationship of the Debt to Great Plains (for example, why Great Plains and Minnesota ratepayers are being allocated a portion of the loss) and explain the amortization of the loss if it is not in equal, annual amounts.

- *On interest synchronization:* The interest synchronization adjustment shall be calculated using the Commission approved rate base and weighted cost of the combined long-term and short-term debt.

- *On bonus depreciation:* Require GPNG to make a compliance filing(s) stating whether or not the Company has elected to take federal bonus depreciation in 2015 and/or in 2016. Require Great Plains to make the filing(s) the earliest practical date of either 30 days after the Commission's order or 30 days after the relevant operating year's tax return is filed.

The motion passed 5–0.

11. Cost of Capital

Commissioner Lipschultz moved to adopt the ALJ's recommendation of the following updated capital structure:

Great Plains' Updated
Projected 2016 Capital Structure

Source of Capital	Ratio
Long Term Debt	41.712%
Short-Term Debt	6.556%
Preferred Stock	1.146%
Common Equity	50.586%
Total	100%

The motion passed 5–0.

12. Cost of Long-Term Debt

Commissioner Tuma moved to approve the cost of long-term debt of 5.492 percent as reasonable and adopt the two findings proposed by the Department in its Exceptions:

> **Proposed Finding**: In its initial filing, Great Plains proposed a cost of long-term debt of 5.777 percent that reflected a projected issuance of a $150 million note with a 30-year term and a 5 percent interest rate. DOC Ex. 204 at 38 (Addonizio Direct). In its response to DOC Information Request No. 210, Great Plains explained that it issued three notes during 2015 totaling $150 million, with terms of 10 years, 15 years, and 30 years, and interest rates of 3.78 percent, 4.03 percent, and 4.87 percent, respectively. DOC Ex. 204 at 38, CMA-RD-10 (Addonizio Direct).
>
> **Proposed Finding**: Because those interest rates are lower than the projected rate of 5.00 percent, Great Plains cost of long-term debt fell to 5.492 percent in the updated Statement D provided in response to DOC Information Request No. 209. Id. at CMA-RD-5. The Department reviewed Great Plains calculations of its proposed cost of long-term debt and concluded that the calculations are reasonable. Id. at 38.

The motion passed 5–0.

13. Cost of Short-Term Debt

Commissioner Tuma moved to approve the cost of short-term debt of 1.61 percent as reasonable and to incorporate the Department's additional proposed findings into the Commission's order:

> **Proposed Finding**: Unlike Great Plains' proposed long-term debt, the Department concluded that Great Plains had not demonstrated that its proposed short-term cost of debt is reasonable (i.e. not unreasonably high). DOC Ex. 204 at 37 (Addonizio Direct).
>
> **Proposed Finding**: As shown in its initial filing, Great Plains assumed an interest rate of 1.873 percent on its short-term debt during test-year 2016. GP Ex. 2 at Statement D, Schedule D-1, p. 2 (Initial Filing). Great Plains also included in its cost of short-term debt the expense associated with the amortization of fees associated with its revolving credit facility. Id.; DOC Ex. 204 at 36 (Addonizio Direct). Adding these amortization fees raised the cost of short-term debt from 1.873 percent to 2.274 percent. DOC Ex. 204 at 36 (Addonizio Direct).
>
> **Proposed Finding**: The Department agreed that it is reasonable for Great Plains to include an expense component for fees in the calculation of its cost of short- term debt. Id. The Department did not agree, however, with the Company's proposed short-term interest rate of 1.873 percent, which is double the Company's projected 2015 interest rate included in its initial filing (0.895 percent), and more than triple its actual interest rate in 2015 (0.562 percent). Id. at 36, CMA-RD-5, GP Ex. 2 at Statement D, Schedule D-1, p. 2 (Initial Filing).

Proposed Finding: Despite the Department's request that the Company provide adequate information that supported its proposed cost of short-term debt, Great Plains did not do so. The Company also provided no calculations supporting its proposed cost of short-term debt, which remains largely unexplained. DOC Ex. 204 at 36 (Addonizio Direct).

Proposed Finding: Because Great Plains based its test-year cost of short-term debt on the 3-month London Interbank Offered Rate in US dollars (USD LIBOR), the Department calculated the average 3-month USD LIBOR during calendar year 2015, and calculated the spread between that figure and Great Plains' 2015 cost of short-term debt. Id. at 37, CMA-RD-9. The Department then calculated the average 2016 forecasted 3-month USD LIBOR using the January 29, 2016 Bloomberg Forecast provided by the Company, and added the 2015 spread to that figure to derive a more appropriate estimate of Great Plains' 2016 cost of short- term debt. Id. at 37. The Department used the resulting interest rate, 1.205 percent, [FN 4] in addition to fees, which leads to the Department's proposed test year cost of short-term debt for Great Plains of 1.61 percent. Id. at 37, CMA-RD-9.

[Footnote 4: Page 37 of Mr. Addonizio's Revised Direct Testimony incorrectly stated that the Department's proposed short-term debt interest rate is 1.244 percent. The correct short-term debt interest rate is 1.205 percent, as noted in Attachment CMA-RD-9 to Mr. Addonizio's Revised Direct Testimony.]

New Proposed Finding: The Company accepted the Department's proposed cost of short-term debt.

The motion passed 5–0.

14. Cost of Equity

Commissioner Tuma moved to adopt the ALJ's recommendation of 9.06 percent return on equity.

The motion passed 5–0.

15. Sales Forecast

Commissioner Lange moved

- *Correction/Clarification:* Regarding the ALJ's "Summary of Great Plains Test Year Sales Forecast," to amend paragraph 270, to make the following correction:

Correct the reference to $3~~2~~2,306 in para 270 to $332,306

- *Length of Weather Normalization Period:* Adopt the ALJ's finding and recommendation (paragraph 279):

> ". . . Great Plains did not meet its burden to show use of an outdated 30-year period for weather normalization to be reasonable. The Administrative Law Judge agrees with the DOC-DER that use of the most recent 16- year period (1999-2015) to estimate normal weather is likely to be representative of temperatures for the 2016 test year and therefore is reasonable and should be used in this case."

- *Number of Historical Years Used to Forecast Test-Year Sales Volumes:* Adopt the ALJ's finding and recommendation (paragraph 286): [DOC, ALJ]

> ". . . Great Plains has not shown that use of only three years of sales volume data to estimate test year sales volume is reasonable. Based on this record, the Administrative Law Judge is persuaded that use of 12 years of sales volumes will provide a more reliable 2016 test year forecast and recommends the Commission adopt use of twelve years of historical sales volumes to forecast the test year sales."

- *Filing Requirements for Future Rate Cases:* Modify the ALJ's recommendation (paragraph 544): ". . . require Great Plains to improve its forecast methodology in future rate filings" by providing the following information to the extent practicable or explain why the information is not available:

    a) A summary spreadsheet that links together the Company's test-year sales and revenue estimates, its CCOSS, and its rate design schedules;

    b) a spreadsheet that fully links together all raw data, to the most detailed information available and in a format that enables the full replication of Great Plains' process that the Company uses to calculate the input data it uses in its test-year sales analysis;

    c) raw sales, customer count, billing system, and weather data that is as up to date as possible and that goes back at least 20 years;

    d) hourly historical weather (temperature) data, rather than (or in addition to) daily historical data;

    e) if, in the future, Great Plains updates, modifies, or changes its billing system, a bridging schedule that fully links together the old and new billing systems and validates that there is no difference between the two billing systems;

    f) any, and all, data used for its sales forecast 30 days in advance of its next general rate case; and

g) detailed information sufficient to allow for replication of any and all Company derived forecast variables.

The motion passed 5–0.

16. Class Cost of Service Study (CCOSS)

Commissioner Lipschultz moved to

- Reject the Company's CCOSS; and

- Reject the Department's alternative CCOSS, amending paragraph 327 of the ALJ's Report as follows:

> 327. ~~The Administrative Law Judge concludes that t~~The DOC-DER's alternative CCOSS~~, while imperfect, may be useful to the Commission in proceeding toward the development of rate design~~ should not be adopted in this case given that the DOC-DER's alternative CCOSS relies upon the same flawed data that led the ALJ to recommend rejection of the Company's CCOSS. The Department recommended that the alternative only be used in the event that the Company's CCOSS was found to be reasonable; given that the Company's CCOSS has not been demonstrated as reasonable the alternative must be set aside as well.~~ The Commission and all parties should be aware of the weakness of the alternative CCOSS and weigh it accordingly as a factor in rate design determination.~~

The motion passed 5–0.

17. Class Cost of Service Study—Next Rate Case Filing

Commissioner Lipschultz moved to require the Company, in its next general rate case,

- to provide and use non-aggregated distribution mains data (length in feet, original cost of construction and normalized replacement cost) per material, size, and vintage (year), in support of its minimum size analysis,

- submit a CCOSS for each individual rate area if the rate areas have not been consolidated, and

- file a minimum system class cost of service study and a basic customer method class cost of service study.

The motion passed 5–0.

18. Class Revenue Apportionment

Commissioner Tuma moved

- The percentage increase of the final revenue deficiency (rate increase) shall be applied to each customer class's current revenue from both the Basic Customer Charge and the distribution charge and exclude the flexible rate revenue from the calculation. Under this method, all customer classes would share equal responsibility for Great Plains' revenue deficiency and the current class revenue apportionment factors would remain as reflected Table 305 of staff's briefing papers.

- The revised Basic Customer Charges will be submitted by Great Plains in their final compliance filing.

The motion passed 5–0.

19. Fixed Customer Charges

Commissioner Lange moved to reject the ALJ's recommendation and adopt some other fixed customer charge levels.

The motion passed 5–0.

20. Flexible Rate Proposal

Commissioner Lipschultz moved to allow Customer A and B to remain on their flexible rates, but require Great Plains to supplement the record in its next rate case with proper studies and analyses that fully support Great Plains' statements in this docket that these customers are either a "by-pass" threat to Great Plains or have economic alternative fuels available to them.

The motion passed 5–0.

21. Revenue Decoupling Pilot Project Design

Commissioner Lipschultz moved to adopt the ALJ's recommendation to approve Great Plains' proposed revenue decoupling pilot, as modified by the Department.

The motion passed 5–0.

22. Revenue Decoupling Annual Adjustment

Commissioner Tuma moved to require the Company to provide calculations of its decoupling adjustment in the annual decoupling report and in the final report using both of the following options:

a) Authorized non-gas revenues will be calculated by multiplying authorized margin per-customer by the authorized number of customers (i.e., the total approved revenue); and

b) Authorized non-gas revenues will be calculated by multiplying authorized margin per-customer by the actual customers per rate class for the preceding year (i.e., the approved per-customer revenue).

The motion passed 5–0.

23. Impact of Revenue Decoupling on Conservation Improvement Program (CIP)
Commissioner Tuma moved to ask the Department to propose, in the next rate case, a floor below which energy savings should not go for the Company to earn its decoupling adjustment.

The motion passed 4–1. Chair Heydinger voted no.

24. First-Through-the-Meter Proposal for Interruptible Customers

Commissioner Schuerger moved to adopt the ALJ's recommendation to approve Great Plains' proposed First-Through-The-Meter with the adjustments recommended by the Department.

The motion passed 5–0.

25. Consolidation of North and South PGA Areas—Distribution Rate

Commissioner Lipschultz moved to adopt the ALJ recommendation and approve Great Plains' proposed two-stage consolidation over a two-year phase-in period.

The motion passed 5–0.

26. Base Cost of Gas

Commissioner Lange moved

- To require Great Plains to update its base cost of gas rates to reflect the reduction in gas costs as provided by Great Plains in its July 8, 2016 Informational (Compliance) Filing, to be filed within five business days after the Deliberation Meeting, adjusted for all Commission decisions; and

- To require Great Plains to update its base cost of gas to reflect the ALJ Report's sales forecast recommendation.

The motion passed 5–0.

27. Consolidation of Purchased Gas Adjustment (PGA) Areas

Commissioner Lange moved to adopt the ALJ's Report recommendation and approve the requested consolidation of the North and South PGA areas.

The motion passed 5–0.

28. Conservation Improvement Program (CIP) Expenses and Conservation Cost Recovery Charges (CCRC)

Commission Tuma moved to require Great Plains to update the CCRC factor using the Commission-approved sales forecast and remove the applicable CIP-exempt volumes.

29. Storage Gas Inventory

Commissioner Schuerger moved to require Great Plains to update its Gas in Underground Storage balance, to be filed within five business days after the Deliberation Meeting.

30. Elimination of the Standby Charge Tariff

Commissioner Lange moved to reject the ALJ's recommendation and approve Great Plains' request to eliminate the Standby Service program.

The motion passed 5–0.

31. Demand Charges to Interruptible Customers

Commissioner Tuma moved that, to provide firm customers more immediate rate relief, the Commission modify Great Plains' proposed PGA crediting mechanism to directly assign demand costs of $338,893 to interruptible customers upfront and likewise reduce firm customers assigned demand costs by the same amount.

The motion passed 3–2. Chair Heydinger and Commissioner Lipschultz voted no.

32. Return Check Charge

Commissioner Lipschultz moved that a returned check charge of $18.25 is approved along with an increase in test year revenues of $962.

The motion passed 5–0.

33. Reconnection Fee Calculation for Seasonal Customers

Commissioner Lipschultz moved to adopt the ALJ's Report recommendation and approve Great Plains' Reconnection Fee for Seasonal Customers Proposal and increase test-year operating revenues by $3,018.

The motion passed 5–0.

34. Other Proposed Operational Changes

Commissioner Lipschultz moved to adopt the ALJ report and Department recommendation that Great Plains' Other Operational Changes be incorporated into its Tariff, but reject any other changes not specifically identified by Great Plains in its testimony.

The motion passed 5–0.

35. Miscellaneous Items

Commissioner Tuma moved

- *On Extending the Suspension Period for Proposed Final Rates*: Extend the suspension period for Great Plains' proposed final rates, up to an additional 30 days, until September 30, 2016 or until the Commission issues its final determination in this matter, whichever occurs first. Find that the Commission has insufficient time to prepare and issue its final determination because of the need to make a final determination in another pending general rate case.

- *On Additional Clarifications to the ALJ's Report:*

  a) Modify ALJ Report Finding 2 to read: [GPNG Exceptions]

  > Great Plains is ~~owned by Great Plains~~ a Division of MDU Resources Group Inc. (MDU). MDU, located in Bismarck, North Dakota, is a publicly traded company with a diverse range of nationwide subsidiaries, including electric and natural gas utilities as well as construction companies. Total revenues for MDU in 2014 were $4.7 billion.

  b) Modify ALJ Report Finding 3 to read: [GPNG Exceptions]

  > Great Plains shares personnel and facilities with Montana-Dakota Utilities Co., another ~~subsidiary~~ Division of MDU. Montana-Dakota Utilities Co. provides regulated gas and electric service in Montana, North Dakota, South Dakota, and Wyoming.

  c) Modify ALJ Report Finding 55 to read: (GP)

  > In its 2015 Update, filed on January 4, 2016, Great Plains provided updated 2015 Rate Base and Operating Statement financial information based on the actual 2015 data through October 31, 2015 and revised projected data for the balance of 2015 (updated 2015). Great Plains also provided bridge schedules from the updated 2015 to the most recent fiscal year 2014 and the 2016 test year as originally filed. ~~used a forecasted test year representing the 12 months ending December 31, 2016. Development of the 2016 test year began with 2014 calendar year actual results and then included adjustments and projections for 2015 and 2016 to produce its test year costs.~~

- *On General Housekeeping and Compliance Issues:*

  a) The final order in this docket shall contain summary financial schedules including: a calculation of Great Plains' authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Parties shall work with Commission staff to prepare such schedules for inclusion in the Order, should modifications be necessary to reflect the Commission's final decision.

  b) Great Plains shall make the following compliance filings within 30 days of the date of the final order in this docket:

     a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:

        i. Breakdown of Total Operating Revenues by type;

        ii. Schedules showing all billing determinants for the retail sales (and sale for resale) of natural gas. These schedules shall include but not be limited to:

            1. Total revenue by customer class;

            2. Total number of customers, the customer charge and total customer charge revenue by customer class; and

            3. For each customer class, the total number of commodity and demand related billing units, the per unit of commodity and demand cost of gas, the non-gas margin, and the total commodity and demand related sales revenues.

        iii. Revised tariff sheets incorporating authorized rate design decisions;

        iv. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.

     b. The approved base cost of gas, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.

     c. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.

     d. A computation of the CCRC based upon the decisions made herein for inclusion in the final Order. A schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective

e. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest to affected customers.

- *On Comments*: Authorize comments on all compliance filings within 30 days of the date they are filed; however, comments are not necessary on Great Plains' proposed customer notice.

- *On the Written Order:*

  a) The written order memorializing these decisions may rearrange, reorganize, or renumber the items included as necessary for clarity; standardize or correct abbreviations, phraseology, punctuation, and format; and correct errors as necessary for consistency with the Commission's decision and may amend the ALJ's findings as necessary to be consistent with the Commission's decision.

  b) Direct the staff to draft an order consistent with the Commission's decisions with such changes necessary for organization, consistency, and clarity.

The motion passed 5–0.

36. Adoption of ALJ's Report

Commissioner Lipschultz moved to adopt the ALJ's Findings of Fact, Conclusions of Law and Recommendations (ALJ Report) with modification to one or more of the following issues [set forth in the following pages of the Deliberation Outline], and to the extent the ALJ's Report is consistent with the decisions made by the Commission at this meeting.

The motion passed 5–0.

There being no further business, the meeting was adjourned

APPROVED BY THE COMMISSION: September 7, 2016

Daniel P. Wolf

Daniel P. Wolf, Executive Secretary