
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: BRITTANY MEHLHAFF, PATRICK STEFFENSEN, ERIC PAULSON, JOSEPH REZAC, KRISTEN EDWARDS, AND AMANDA REISS

RE: GE21-001 - In the Matter of Staff's Request Regarding the February 2021 Cold Weather Event and its Impact on Utility Fuel Clause Adjustments and Purchased Gas Adjustments

DATE: February 22, 2021

Commission Staff (Staff) submits this Memorandum regarding its recommendations for the above captioned matter.

BACKGROUND

On February 17, 2021, Staff filed a Petition for Temporary Waiver of Fuel Clause Adjustment and Purchased Gas Adjustment Tariff Provisions to Mitigate Rate Impacts. In its petition, Staff requested the Commission issue an Order authorizing Staff to work with South Dakota electric and natural gas investor-owned utilities to make the necessary modifications to the fuel clause adjustment and/or purchased gas adjustment tariffs to mitigate the rate impact associated with the natural gas costs from the February 2021 cold weather event. Staff also requests the Commission provide a temporary waiver of the tariff language that might be contradictory to the modifications implemented regarding this specific weather event.

Freezing temperatures in areas throughout the United States beginning the second week of February 2021 resulted in unprecedented demand for natural gas and substantially impacted natural gas prices for both electric and natural gas utilities. With regards to electric utilities, members of the Southwest Power Pool (SPP) were significantly affected, although it is Staff's understanding that members of the Midwest Independent System Operator (MISO) also saw some increased spot prices. While it is too early to know the total net impacts of the increased prices for each utility and its customers, based on information available at this time, Staff believes the impact could be significant on customer bills for some utilities, especially natural gas companies and potentially for some electric companies.

CUSTOMER IMPACTS AND RATE MITIGATION REQUESTS

In response to the elevated natural gas prices, Staff had conversations with each of the six investor-owned utilities in South Dakota, both before and after filing the Petition, to ascertain what the impact would be on rates in the fuel clause adjustments and purchased gas adjustments and inquire about possible mitigation. Conversations have focused on impacts to natural gas companies' purchased gas adjustments, as it appears natural gas companies may be more adversely affected. However, Staff has

inquired about the impact to electric utilities as well. Staff provides the following summaries for each company based on information known at this time. It is important to note that cost impacts to each utility will differ based on several factors including whether the utility is gas or electric, the mechanics of the utility's adjustment clause, location, and differing market impacts.

- **Montana-Dakota Utilities Co.** – Montana-Dakota Utilities Co. (Montana-Dakota) recovers its increased cost of natural gas through the Fuel Adjustment Clause for its electric customers and through the Purchased Gas Cost Adjustment (PGA) for its natural gas customers. Montana-Dakota approached Staff regarding the significant impact increased prices will have on its natural gas customers and proposed a change to its PGA to help mitigate the increase.

Montana-Dakota's PGA includes a Surcharge Adjustment to true-up the annual over- or under-recovered balance from the prior period, effective October 1st of each year. The current Surcharge Adjustment, effective October 1, 2020, is currently refunding to customers an over-recovered balance. Given the recent natural gas costs, Montana-Dakota anticipates the current over-recovered balance to be depleted by the end of February, well in advance of the October 1, 2021 effective date of new Surcharge Adjustment rates. The under-recovered balance caused by the spike in prices for February would typically be deferred until the next annual true-up effective October 1, 2021. Continuing to refund customers through a negative Surcharge Adjustment from March through September will only compound the problem. Thus, Montana-Dakota proposes to increase the Surcharge Adjustment from (\$0.465) to \$0.00 for firm service customers and from (\$0.206) to \$0.00 for interruptible customers, effective March 1, 2021, to help smooth out the impact of the recent spike in natural gas prices.

Due to the level of the increased February costs, most likely additional mitigation will need to take place in order to avoid a large swing in the Surcharge Adjustment in October. Once the total impact of the February cold weather event is known in the beginning of March, Staff and Montana-Dakota will work together to determine if another increase in the Surcharge is appropriate beginning April 1 and how large an increase that will be. Staff believes this approach will gradually increase costs for customers while also avoiding extra carrying costs for customers.

Montana-Dakota has not currently proposed any changes needed to mitigate the impact for its electric customers. However, as the net impact becomes more known, Staff will work with Montana-Dakota on changes to its Fuel Adjustment Clause, if necessary.

- **NorthWestern Corporation dba NorthWestern Energy** – NorthWestern Corporation dba NorthWestern Energy (NorthWestern) recovers its increased cost of natural gas through the Fuel Adjustment Clause for its electric customers and through the Adjustment Clause (PGA) for its natural gas customers. Although NorthWestern's PGA uses a 12-month recovery period that normally results in stable rates, the recent cold weather event will result in a significant price

increase for natural gas customers. NorthWestern proposes two changes to its normal PGA process in order to mitigate the impacts of the increased costs.

First of all, NorthWestern proposes to include the increased gas costs experienced due to this February cold weather event in its March 1 PGA filing in lieu of the April 1 PGA filing where it would normally be included. This change will speed up recovery as opposed to waiting until April when volumes begin to decline into the summer. This change will also help to reduce carrying costs experienced by customers over the lower volume summer months.

NorthWestern also proposes to ensure that all customers are paying their fair share of the price increase. Rate 84 and Rate 86 customers pay the monthly index rate for their gas supply. Due to the mechanics of the PGA true-up, Rate 81 and Rate 82 customers would end up unfairly taking on the burden of the increased costs incurred to serve Rate 84 and Rate 86 customers. NorthWestern proposes to mitigate this issue by increasing the Rate 84 and Rate 86 PGA charges by their pro-rata share of the price increase. This additional charge will remain in effect until the earlier of twelve months or when the True-Up commodity balance reaches zero.

Staff believes NorthWestern's proposal is in the best interest of customers, as it more adequately allocates costs to appropriate customer groups and reduces customer carrying charges.

While NorthWestern does not currently seek any changes for its electric Fuel Adjustment Clause as sufficient data is not available to determine the net impact, NorthWestern indicated that increased prices for its sales in the SPP market will likely lessen the impact of the increased cost of natural gas. In the event NorthWestern does see a significant impact on the electric side, NorthWestern and Staff will work together to mitigate the impacts in the coming months.

- **MidAmerican Energy Company** – MidAmerican Energy Company (MidAmerican) recovers its increased cost of natural gas through the Energy Cost Adjustment for its electric customers and through the Cost of Purchased Gas Adjustment (PGA) for its natural gas customers. MidAmerican has indicated that it would like to take this opportunity to work with Staff to amend its PGA to help mitigate the rate impacts to its natural gas customers; however, the plan is still being finalized. Staff believes the draft plan, as provided to Staff on February 19th, is generally consistent with the plans of the other natural gas utilities, and this example highlights the need for the authority being requested given the lack of time remaining to receive Commission approval prior to March 1st.

As was the case with the other utilities with electric and natural gas operations, the primary focus has been to mitigate the rate impact to natural gas customers; however, Staff will continue to work with MidAmerican to see if rate mitigation is necessary for its electric operations.

- **Otter Tail Power Company** – Otter Tail Power Company (Otter Tail) recovers its increased cost of natural gas through the Fuel Adjustment Clause. Otter Tail has indicated it is supportive of Staff’s filing but does not know the magnitude of the cost increases yet. They have experienced increased costs of MISO purchases during peak hours, but their generating units have been running well with some weakness in wind generation due to low wind during the cold stretch. Otter Tail will assess the impact in early March once costs and market sales are more known. Increased costs would be reflected in the Fuel Adjustment Clause in April, allowing some time for adjustments to be made if necessary.
- **Northern States Power Company dba Xcel Energy** – Northern States Power Company dba Xcel Energy (Xcel) recovers its increased cost of natural gas through the Fuel Adjustment Clause. Xcel has indicated that it has been selling into the MISO market in excess of load, and it is possible the increased revenue from MISO sales will completely offset the increased cost of natural gas. If not, the increased costs this month will not be reflected in the Fuel Adjustment Clause until April, giving them some additional time to see if adjustments need to be made.
- **Black Hills Power, Inc. dba Black Hills Energy** – Black Hills Power, Inc. dba Black Hills Energy (Black Hills) recovers its increased cost of natural gas through the Energy Cost Adjustment within the Cost Adjustment Summary. An added reliance on natural gas generation coupled with the high costs of natural gas has resulted in increased costs to be recovered through the Energy Cost Adjustment. Black Hills does not know the total impact at this time, but would like to continue working with Staff on customer impacts and cost recovery.

Staff appreciates the companies’ efforts to quickly mitigate the issues caused by this weather event for their customers. While only Montana-Dakota and NorthWestern have finalized specific requests for immediate action for their natural gas utilities, Staff elected to open this docket as a vehicle for the investor-owned utility companies to efficiently address any rate mitigation opportunities in a timely manner. Staff requests the Commission authorize Staff to work with each utility to make the necessary modifications to fuel clause adjustment and/or purchased gas adjustment tariffs in order to mitigate the rate impact associated with the natural gas costs from this severe weather event. Such modifications could include, but may not be limited to, the timing, effective dates, and calculations of the fuel clause adjustment and/or purchased gas adjustment. Given total impacts are not yet known and the notice requirements necessary for each utility to make individual requests inhibits the ability for the Commission to take action on each request, Staff believes the authority requested results in the most efficient process that is in the best interest of customers.

However, if the Commission determines these requests need specific Commission approval for each utility individually, Staff recommends the Commission approve the two finalized requests at this time and others will be brought before the Commission as they arise.

RECOMMENDATION

Staff recommends the Commission:

- 1) Issue an Order authorizing Staff to work with South Dakota electric and natural gas investor owned utilities to make the necessary modifications to the fuel clause adjustment and/or purchased gas adjustment tariffs to mitigate the rate impacts associated with the natural gas costs from the February 2021 cold weather event, and
- 2) Provide a temporary waiver of the tariff language that might be contradictory to the remediations taken in this process. Such waiver shall only apply to this weather event.

Further, if item one is not approved, Staff recommends the Commission:

- 3) Approve Montana-Dakota's and NorthWestern's mitigation requests as explained in their respective sections above in this Staff Memorandum.

Staff further recommends the Commission's order make such approval effective on less than 30 days' notice.