

Memo

To: Commissioners, Bill & PUD Staff
From: Mike Diller
Date: April 15, 2004
Re: MDU's Interim Rate Increase Request (PU-04-97)

Following are the applicable laws governing the interim gas rate increase requested by MDU:

- 49-05-06. Hearing by commission on proposed change of rates.**
- 2. Notwithstanding that the commission may suspend a filing and order a hearing, a public utility may file for interim rate relief as part of its general rate increase application and filing. If interim rates are requested, the commission shall order that the interim rate schedule take effect no later than sixty days after the initial filing date and without a public hearing. The interim rate schedule must be calculated using the proposed test year cost of capital, rate base, and expenses, except that the schedule must include:**
 - a. A rate of return on common equity for the public utility equal to that authorized by the commission in the public utility's most recent rate proceeding;**
 - b. Rate base or expense items the same in nature and kind as those allowed by a currently effective commission order in the public utility's most recent rate proceeding; and**
 - c. No change in existing rate design.**
 - 3. In ordering an interim rate schedule, the commission may require a bond to secure any projected refund required by subsection 4. The terms of the bond, including the amount and surety, are subject to the commission's approval.**
 - 4. As ordered by the commission, the utility shall promptly refund to persons entitled thereto all interim rate amounts collected by the public utility in excess of the final rates approved by the commission plus reasonable interest at a rate to be determined by the commission.**

According to staff's review of MDU's application for interim rate relief, MDU used a 2004 projected test year to calculate its interim rate relief. The rate of return on common equity used is 11.329% which coincides with the commission's last order in Case No. PU-399-02-183. In the last order, the commission disallowed SISP costs and such are also excluded from MDU's interim rate calculation. The company also adjusts its projected rate case expense to reflect a 4 year amortization rather than its proposed 3 year amortization to conform to the commission's last decision.

However, the commission also required the inclusion of short term debt in the company's capitalization structure in the last rate case. MDU continues in this case to oppose that decision and has not adjusted its capitalization to include short term debt in its interim rate calculation. This is likely not material to the overall requested increase but a difference nonetheless.

The law also specifically states that the interim rate change may not change existing rate design. Staff contends that this requirement requires any interim rate change to be applied equally to all customer classes. MDU argues that its proposal is in accordance with the commission's decision in the last rate case to only increase rates to residential and firm commercial customers. Staff does not argue with MDU's contention but that is not the point. Again, the difference is not material but MDU should be familiar with the law. The rate increase needs to be applied evenly to all customers including the Air Force and its interruptible customers.

Last, even though the commission may require a bond to ensure a refund in the event that the commission does not find in MDU's favor, staff believes the financial security of MDU is such that one is not required.

In summary, staff believes that MDU must revise its filing to comport with newly enacted legislation by including its short term debt in its capitalization structure and that the rate increase must be proportionately distributed to all customer classes in order to maintain existing rate design.