



interim increase in natural gas rates in the annual amount of \$1,871,000 to be effective 60 days from filing if the Commission suspended the proposed general rate increase. The Company subsequently revised its interim request to include short-term debt as part of the Company's cost of capital and to allocate the proposed interim rate increase equally to all customer classes with no change to existing rate design. The revised interim request sought an increase in annual revenue of \$1,714,000. On April 27, 2004, the Commission issued an Order approving the revised interim rates to become effective May 3, 2004.

3. The North Dakota Public Service Commission ("Commission") suspended Montana-Dakota's general rate increase application and set the matter for investigation and hearing.

4. On March 31, 2004, the Commission issued a Notice of Hearing, Notice of Public Input Sessions, and Notice of Intervention Deadline which set forth the following issues to be considered in this case:

1. What is the value of MDU's property, used and useful, for the service and convenience of the public in North Dakota?
2. What is MDU's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?
3. What is a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
4. What rates and charges are necessary to provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
5. Are MDU's rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?

6. Other relevant information or proposals concerning the proceeding.

5. On May 10, 2004, the Commission conducted a Public Input Session via interactive video conference with hearing sites in Bismarck, Minot, Dickinson, Jamestown, Devils Lake and Williston.

6. No person has filed a petition to intervene in this proceeding.

7. Discovery requests were served on Montana-Dakota by the Staff and responded to by the Company.

8. On July 15, 2004, the Staff filed direct testimony of Charles W. King, President of the economic consulting firm of Snavely King Majoros O'Connor & Lee. In his direct testimony, Mr. King recommended various adjustments to the 2005 test year that, if adopted, would reduce the test year revenue requirement to \$604,000. Mr. King further commented on Montana-Dakota's proposed rate design changes.

9. On August 2, 2004 and August 4, 2004, Montana-Dakota filed rebuttal testimony to the testimony of Mr. King. In its rebuttal testimony, Montana-Dakota responded to the adjustments recommended by Mr. King. The Company's rebuttal testimony included additional information and explanation on the test year items questioned by Mr. King.

10. Settlement discussions were held between the Parties on August 17, 2004 and August 20, 2004. As a result of those and subsequent discussions, the Parties reached this Settlement Agreement.

11. The Settlement Agreement is supported by the administrative record. Accordingly, the Parties jointly recommend the Commission issue an Order approving this Settlement Agreement in it's entirely, without conditions or modifications.

## TERMS OF SETTLEMENT AGREEMENT

1. Revenue Increase. The Parties agree to, and recommend the Commission approve, a net increase in Montana-Dakota's natural gas rates for retail customers in North Dakota to yield an annual revenue increase of \$2,500,000 effective October 3, 2004. This revenue increase is based upon a return on rate base of 8.791 percent.

2. Basic Service Charge. The Parties agree to, and recommend the Commission approve, that the changes in Montana-Dakota's retail rates to yield the revenue increase in paragraph 1 include an increase in Montana-Dakota's residential and general service Basic Service Charges as proposed by the Company.

3. Rate Design. The Parties agree to, and recommend the Commission approve, that the changes in Montana-Dakota's retail rates to yield the revenue increase in paragraph 1 include an increase in residential and general service retail Distribution Delivery Charges which, when combined with the revenue yielded from the Basic Service Charge changes in paragraph 2, result in an overall increase of total residential test year revenues of approximately 2.5 percent and general service revenues of approximately 1.9 percent. The Parties agree to, and recommend the Commission approve, no increase in the rates for service to interruptible customers or to the Minot Air Force Base.

4. The Parties agree to, and recommend the Commission approve, the Company's proposed Distribution Delivery Stabilization Mechanism Rate 87 as filed with the Rebuttal Testimony of Tamie A. Aberle.

## OTHER TERMS AND CONDITIONS

### 1. **Basis of Settlement.**

It is agreed this Settlement Agreement is a negotiated settlement agreement subject to approval by the Commission. The Settlement Agreement does not establish any principle or precedent, nor adopt or recommend any specific type or amount of expense or rate base, for this or any future proceeding.

### 2. **Effect of the Settlement Negotiations.**

It is understood and agreed that all offers of settlement and discussions related to this Agreement are privileged and may not be used in any manner in connection with proceedings in this case or otherwise, except as provided by law. In the event the Public Service Commission does not approve this Settlement Agreement, it shall not constitute part of the record in this proceeding and no part thereof may be used by any party for any purpose in this case or otherwise.

### 3. **Applicability and Scope.**

This Settlement Agreement shall be binding on the Parties, and their successors, assigns, agents, and representatives. Consistent with the Commission's settlement guidelines, this Settlement Agreement does not set policy or overturn precedent. This Settlement Agreement shall not in any respect constitute an agreement, admission or determination by any of the Parties as to the merits of any specific allegation or contention made by the Parties in this proceeding.

### 4. **Effective Date.**

This Settlement Agreement shall be effective on the date of the Commission Order approving the Settlement Agreement. The revised rates and tariff agreed to by

this Settlement Agreement shall be effective on the dates specified herein.

**5. Modification.**

If the Commission Order modifies or conditions approval of this Settlement Agreement, it shall be deemed terminated if any party files a letter with the Commission within three (3) business days of notice of such Order stating that a condition or modification to the Settlement Agreement is unacceptable to such party.

Dated this 24<sup>th</sup> day of August, 2004.

MONTANA-DAKOTA UTILITIES CO.

By: Donald R. Ball  
Its: Assistant Vice President –  
Regulatory Affairs

Dated this 24<sup>th</sup> day of August, 2004.

NORTH DAKOTA PUBLIC SERVICE  
COMMISSION STAFF

By: [Signature]  
Its: Chief Counsel