

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
Natural Gas Rate Increase
Application

Case No. PU-04-97

ORDER ADOPTING SETTLEMENT

September 22, 2004

Appearances

Commissioners: Anthony T. Clark, Susan E. Wefald, Kevin Cramer.

William W. Binek, Chief Counsel, Public Service Commission, State Capitol, 600 East Boulevard, Bismarck, ND 58505, appearing for the Public Service Commission advocacy staff.

Daniel S. Kuntz, Senior Attorney, MDU Resources Group, Inc., PO Box 5650, Bismarck, ND 58506-5650, appearing for Montana-Dakota Utilities Co.

Allen C. Hoberg, Director, Office of Administrative Hearings, 1707 North 9th Street - Lower Level, Bismarck, ND 58501-1882, appearing as procedural Hearing Officer.

Preliminary Statement

On March 3, 2004, Montana-Dakota Utilities Co. a division of MDU Resources Group, Inc (MDU) filed an application with the North Dakota Public Service Commission to increase its natural gas rates by 2.8% annually. The requested increase in rates would generate additional revenues of \$3,334,226 annually in North Dakota. MDU's application is based on a calendar 2005 projected test year. MDU also included a request for interim rate relief, based on a 2004 test year, to generate additional annual revenues of \$1,869,539.

MDU proposed that all increases be flowed into the firm residential and commercial rate schedules, and that no change in rate levels be applied to the Air Force or small and large interruptible schedules. The proposed changes in rates by customer class are as follows: Residential, 3.5%, and Firm General Service, 2.3%. MDU estimates the proposed increase for a residential customer would average about \$31.45 per year.

MDU stated that the primary reason for its application is increased operating expenses driven largely by increases in labor and benefit costs.

On March 31, 2004, the Commission suspended MDU's rates filed with its application and issued a Notice of Hearing, Notice of Public Input Sessions, and Notice of Intervention Deadline. The technical hearing was scheduled for August 31, 2004, and Public Input Sessions via interactive video teleconference were scheduled for May 10, 2004, in Bismarck, Devils Lake, Dickinson, Jamestown, Minot and Williston.

The Notice of Hearing specified the following issues to be considered:

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 proposed 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.

The Notice of Intervention Deadline provided that any person wishing to intervene as a party in the proceeding must file a petition for intervention by May 24, 2004. No one petitioned to intervene as a party in the proceeding.

On April 15, 2004, Commission advisory staff filed a memo advising that MDU did not comply with the statute that authorizes interim rates because MDU did not properly adjust for inclusion of short-term debt in its capitalization structure, as was ordered by the Commission in MDU's most recent natural gas rate case, Case No. PU-399-02-183. Advisory staff further noted the law requires that any interim rate design may not change existing rate design and therefore advised that any interim rate increase must be applied equally to all customer classes, including the Air Force and interruptible customers.

On April 26, 2004, MDU submitted amended rate schedules for interim rate relief reflecting short-term debt in its capitalization structure resulting in a lower interim annual revenue requirement of \$1,714,000 or 1.4293 percent spread equally to all customer classes.

On April 27, 2004, the Commission ordered the amended interim rates effective for service rendered on or after May 3, 2004.

Public Input Sessions were held via interactive video teleconference on May 10, 2004, in Bismarck, Devils Lake, Dickinson, Jamestown, Minot and Williston.

On July 15, 2004, the Commission advocacy staff (Staff) filed testimony recommending that MDU's revenue deficiency is \$603,000 for the 2005 test year. Staff agreed with MDU's rate design to modestly increase the daily basic service charge, with the remainder to be recovered through the distribution delivery charge on a per dekatherm basis. Staff's agreement to MDU's rate design proposal was predicated on the Commission's acceptance of MDU's proposed weather normalization adjustment referred to as the Distribution Delivery Stabilization Mechanism (DDSM). However, Staff recommended changes to administer the DDSM in real time so as to recover additional revenue during winter months that are warmer than normal and less revenue when winter months are colder than normal.

On August 2, 2004, MDU filed rebuttal testimony disputing the revenue deficiency recommended by Staff. MDU agreed with Staff's real-time DDSM recommendation but proposed that it be calculated based on each individual customer's usage rather than customer class average deviations.

On August 24, 2004, MDU and Staff filed a Settlement Agreement. MDU and Staff agreed to:

1. A net increase in rates to yield increased annual revenues of \$2,500,000 based on a return on rate base of 8.791 percent.
2. Basic service charge increases as proposed.
3. An increase to the residential customer class of approximately 2.5 percent and the general service class of approximately 1.9 percent with no increase to interruptible customers or to the Minot Air Force Base.
4. Establishment of the DDSM billing adjustment in form proposed by MDU in rebuttal testimony.

On August 31, 2004, a hearing was commenced as scheduled, but was immediately converted to an Informal Hearing to discuss the settlement agreement. At the Informal Hearing, MDU and staff discussed the settlement and summarized the basis for it. Generally, several issues originally disputed by staff were no longer disputed by staff after additional investigation and the filing of MDU rebuttal testimony. Consequently, the adjustments that these originally disputed items represented were no longer advocated by staff. In addition, at the Informal Hearing MDU addressed several questions and concerns raised by the Commission concerning language in the proposed DDSM tariff schedule. MDU agreed to revise the tariff language to address the Commission's concerns.

On September 8, 2004, the Commission issued a Notice of Rescheduled Hearing, rescheduling the hearing to September 20, 2004.

On September 10, 2004, MDU and Staff filed a Stipulation identifying issues no longer disputed and on which MDU and staff could agree in order to avoid holding a contested hearing on matters not in dispute. On September 20, 2004, a hearing was commenced as scheduled, but was immediately converted to a working session.

Having considered this matter, the Commission finds the Settlement Agreement filed August 24, 2004 is reasonable and should be approved. Therefore, the Commission issues the following:

Order

1. The Settlement Agreement filed August 24, 2004, a copy of which is attached to this Order and made a part of this Order, is APPROVED.
2. MDU's interim increase in annual revenues of approximately \$1,714,000 will remain effective until the revised tariff sheets contemplated by this order take effect, at which time the interim rates will expire and be replaced by the rates reflected in the compliance tariffs. Since the final rates exceed the interim rates, no refunds will be due.
3. MDU shall file compliance tariffs to implement final rates, as agreed to in the Settlement Agreement and at the Informal Hearing, to yield a final annual revenue increase of not more than \$2,500,000.

PUBLIC SERVICE COMMISSION

**Susan E. Wefald
Commissioner**

**Tony Clark
President**

**Kevin Cramer
Commissioner**