

Memo

To: Darrell Nitschke
From: Mike Diller *MAD*
Date: June 7, 2010
Re: Staff Comments
MDU's Interim Electric Rate Increase Request (PU-10-124)

MDU uses a 2010 projected test year to calculate its interim rate relief request of \$7.6 million in increased revenue collections or an overall increase of 7.04%. Staff agrees with the amount requested but advocates a different method of allocating the increase to customers. MDU has acquiesced to staff's request and as a result, the increase is slightly higher (7.91%) but the increase is not applied to all revenues. Instead, the increase is only applied to base rates, and energy and demand charges. The overall increase to total revenues remains \$7.6 million and 7.04%. A proposed Order on Interim Rates is attached for consideration on the next commission agenda, June 16, 2010.

Staff reviewed the commission's last rate case order (PU-399-03-296) and the Company's interim rate request for compliance with the laws and rules governing interim rate increases. The applicable section of law reads:

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.**

MDU's interim rates are calculated using the Company's 2010 test year and the return on equity last authorized by the commission in 2003 of 11.5%. The rate base and expenses included in the interim rate calculation are the same in nature and kind allowed by the commission in MDU's last rate order. Staff believes the requested interim increase amount is appropriate.

The primary differences between the interim rate increase of \$7.7 million and the full rate increase request of \$15.4 million include: the exclusion of Big Stone 2 costs currently being considered in a separate docket; the retention of the rider for off-system sales profits rather than the proposed fuel cost rider pass-through treatment; exclusion of a large project scheduled to not be complete until the end of 2010; and exclusion of certain costs related to a new depreciation method.

MDU's method, as filed in its application, allocates the increase on an energy charge basis (kWh) while its large general service rates and some of its small general service rates contain both an energy charge and a demand charge. Applying the increase to these customers, using an energy charge only, changes their existing rate design. Therefore, staff recommends using a percentage approach rather than a per kWh charge. MDU agrees to use staff's approach and provided the attached worksheets for documentation of the different approach.

The commission may require a bond to ensure a refund of the interim rates in the event a refund is later required. However, staff believes the financial security of MDU is sufficient and a bond is not required.

Staff believes that MDU's interim rate request as revised here is in compliance with the rules and laws of the state and should be approved.

**MONTANA-DAKOTA UTILITIES CO.
ELECTRIC UTILITY - NORTH DAKOTA**

**Calculation of Increase per Kwh - Interim Revised
Projected 2010**

Total Projected Revenues	\$110,925,307
Excluding Fuel	11,866,268
Excluding Rate 30 Contract Customers	<u>2,732,513</u>
Revenues Applicable to Interim Increase	\$96,326,526
Requested Interim Revenue Increase	\$7,617,000
% Increase	7.91%

MONTANA-DAKOTA UTILITIES CO.
ELECTRIC UTILITY - NORTH DAKOTA

Allocation of Revenues - Interim Revised to Include Base Fuel in Energy
Projected 2010

Rate Class	Projected 2010 Billing Determinants and Revenues Before Increase						Total Net of Fuel	Equal % Increase		
	Customers	Kwh	KW	Base Rate	Energy 1/ Demand	Fuel Rev 2/ Total			\$	%
Residential Service										
Rate 10	62,930	621,251,041		\$4,153,286	\$36,806,058	4,827,121	\$45,786,465	40,959,344	7.91%	
Rate 16	12	242,382		1,512	11,037	1,883	14,432	12,549	993	7.91%
Total Residential	62,942	621,493,423		4,154,798	36,817,095	4,829,004	45,800,897	40,971,893	3,240,877	7.91%
Small General Service										
Rate 20	8,857	97,452,803		2,127,143	5,368,400	757,207	8,252,750	7,495,543	592,897	7.91%
Rate 26	4	115,059		1,056	4,203	894	6,153	5,259	416	7.91%
Subtotal	8,861	97,567,862		2,128,199	5,372,603	758,101	8,258,903	7,500,802	593,313	7.91%
Rate 25	36	772,957	5,972.7	4,320	26,520	6,006	44,882	38,886	3,076	7.91%
Rate 40	347	4,304,707	10,716.9	68,742	161,659	46,097	309,945	276,498	21,871	7.91%
Total Small General	9,244	102,645,326	16,689.6	2,201,261	5,560,782	54,143	8,613,740	7,816,186	618,260	7.91%
Large General Service										
Rate 30 Primary	27	93,081,145	236,785.0	29,150	3,029,791	1,496,230	5,278,421	4,555,181	360,315	7.91%
Rate 30 Secondary	3,047	580,503,947	1,755,628.6	1,279,740	19,365,612	16,262,422	41,418,290	36,907,774	2,919,405	7.91%
Total Rate 30	3,074	673,585,092	1,992,413.6	1,308,900	22,395,403	17,758,652	46,696,711	41,462,955	3,279,720	7.91%
Rate 31	32	7,917,529	52,690.2	14,208	320,999	140,419	556,745	475,226	37,590	7.91%
Rate 32	320	37,962,671	167,766.6	38,400	1,266,430	254,084	1,853,884	1,558,914	123,310	7.91%
Rate 38	2	17,883,900	43,683.3	16,549	511,477	243,904	910,888	771,930	61,060	7.91%
Rate 39	1	3,942,900	10,863.0	3,600	114,344	24,442	173,022	142,386	11,263	7.91%
Total Large General	3,429	741,292,092	2,267,416.7	1,381,657	24,608,253	18,421,501	50,171,250	44,411,411	3,512,943	7.91%
Municipal Lighting										
Rate 41 Primary	50	1,808,185		94,839		16,400	111,239	84,839	7,502	7.91%
Rate 41 Secondary	832	18,370,196		1,158,413		143,655	1,302,068	1,158,413	91,630	7.91%
Total Municipal Lighting	882	20,178,381	0.0	0	1,253,252	0	1,413,307	1,253,252	99,132	7.91%
Municipal Pumping										
Rate 48 Primary	3	8,692,767	26,187.9	389	284,427	54,398	418,144	339,214	26,832	7.91%
Rate 48 Secondary	325	21,669,675	88,088.7	37,764	720,866	328,396	1,280,970	1,087,026	85,984	7.91%
Total Municipal Pumping	328	30,362,442	114,276.6	38,153	1,005,293	382,794	1,699,114	1,426,240	112,816	7.91%
Outdoor Lighting Service										
Rate 52 Primary	2	16,191		1,134		126	1,260	1,134	90	7.94%
Rate 52 Secondary	2,801	6,025,237		446,410		46,816	493,226	446,410	35,311	7.91%
Total Outdoor Lighting	2,803	6,041,428	0.0	0	447,544	0	494,486	447,544	35,401	7.91%
North Dakota Electric										
	79,628	1,522,013,092	2,398,382.9	7,775,869	69,692,219	18,858,438	111,866,268	108,192,794	7,619,429	7.91%
Rate 30 Contract Rates										
Rate 30 Contract Rates	3	55,840,133	111,377.8	2,340	1,617,886	678,410	433,877	2,732,513	0	
Total North Dakota Electric	79,631	1,577,853,225	2,509,760.7	7,778,209	71,310,105	19,536,848	12,300,145	110,925,307	98,625,162	7,619,429

1/ Includes base fuel of \$0.01303 per Kwh.

2/ FCA = \$0.00777

Total Fuel = \$0.02080

Total Projected Revenues excl Fuel \$96,326,526
Requested Revenue Increase 7,617,000
% Increase 7.910000%
Overall ROR 9.091%

STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

**Montana-Dakota Utilities Co., a Division
of MDU Resources Group, Inc.
Electric Rate Increase
Application**

Case No. PU-10-124

ORDER ON INTERIM RATES

June 16, 2010

On April 19, 2010, Montana-Dakota Utilities Co. (MDU) filed an application to increase its electric rates including an interim rate increase.

Under North Dakota Century Code section 49-05-06(2) a company filing for a rate increase is entitled to an interim increase, but the rate increase must meet certain criteria. These include: the same rate of return on common equity authorized by the Commission in the public utility's most recent rate proceeding; rate base and expense items the same in nature and kind allowed by the Commission in its most recent rate proceeding and; no change in the existing rate design.

MDU's interim rate increase is based on a projected 2010 test year and seeks an increase in annual revenue collections of \$7,617,000 or an overall increase in retail revenues of 7.04%. To accomplish this, MDU filed an Interim Rate Adjustment by rate class on a per kWh use basis.

On June 7, 2010, the Commission's advocacy staff filed comments agreeing to the amount of the interim rate increase but argues that it should be charged to customers on a percentage basis rather than a per kWh use basis. The advocacy staff argues that an increase strictly on a kWh basis results in a change to existing rate design. MDU agrees to use staff's method which results in a percentage increase of 7.91% as applied to base rates and energy and demand charges. This increase is not applied to fuel cost rider charges. Overall, total revenue collections will increase by 7.04%.

In the event the interim rate amounts collected by MDU are in excess of the final rates approved by the Commission, MDU is required to refund the excess under North Dakota Century Code section 49-05-06(4), including interest at a rate to be determined by the Commission.

Order

The Commission orders:

1. MDU's proposed interim increase of \$7,617,000 per year is approved.

2. Interim rate design advocated by the Commission's advocacy staff is approved.
3. Interim rates shall be effective for service billed on or after June 18, 2010.
4. Interim Rate Adjustment will be shown as a separate line item on customers' bills.
5. MDU is not required to obtain a bond under North Dakota Century Code section 49-05-06(3) to secure a refund required under North Dakota Century Code section 49-05-06(4).
6. MDU may combine its interim rate notice with its rate increase application notice to customers.

PUBLIC SERVICE COMMISSION

**Brian Kalk
Commissioner**

**Kevin Cramer
President**

**Tony Clark
Commissioner**