

STATE OF NORTH DAKOTA  
BEFORE THE  
PUBLIC SERVICE COMMISSION

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

Case No. PU-10-124

**PARTIAL SETTLEMENT**

This Partial Settlement is entered into this 15<sup>th</sup> day of June, 2010, by and between the North Dakota Public Service Commission advocacy staff ("Staff") and Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. ("Montana-Dakota"), (collectively, the "Parties"). This Partial Settlement sets forth the positions and recommendations of the Parties relating to the overall rate of return on the Company's rate base ("ROR"), including the return on equity ("ROE") component, for ratemaking purposes for the Company in the above-captioned proceeding. The Parties' recommendations are consistent with the public interest and will result in just and reasonable rates for the Company's retail electric operations in North Dakota.

**TERMS OF SETTLEMENT**

**Reduced Return on Equity**

The Parties agree that a 8.699 percent ROR is appropriate for determining the Company's revenue requirements in this proceeding. The Parties also agree to, and recommend the North Dakota Public Service Commission (the "Commission") approve in its final order, a ROE of 10.75 percent. The components of the recommended ROR are shown on Attachment 1 hereto.

The reasonableness of an 8.699 percent ROR and 10.75 percent ROE are supported by various considerations, including but not limited to the following:

- The 8.699 percent ROR is less than the 8.8 percent ROR approved in the December 31, 2008 final order for Xcel Energy in its most recent electric rate case, Case No. PU-07-776, and is based on the same 10.75 percent ROE as approved in that case.
- The 8.699 percent ROR is only slightly greater than the 8.62 percent ROR, and is the same 10.75 percent ROE, as approved by the Commission in Otter Tail Power Company's recent electric rate case, Case No. PU-08-862.

#### **Customer Refunds for Earnings Above Threshold**

The Parties agree to, and recommend that the Commission approve, an earnings sharing mechanism that will result in customer refunds if the Company's net income from electric utility service in North Dakota exceeds a 10.75 percent ROE.

If the Company earns in excess of 10.75 percent ROE as reflected in the annual report of jurisdictional regulated electric earnings for any fiscal year prior to either: (i) January 1, 2013; or (ii) the base period included in the Company's next electric general rate case (whichever occurs sooner); the Company will refund to customers revenues corresponding to 50 percent of earnings above 10.75 percent ROE.

Earnings sharing credits will be applied to customer accounts as soon as practical after July 1, following the annual report of electric earnings for the given fiscal year has been filed with the Commission (typically on April 15). A refund would be administered as a one-time bill credit.

## **OTHER TERMS AND CONDITIONS**

### **Basis of Settlement**

It is agreed this Partial Settlement is a negotiated Settlement subject to approval by the Commission. Except for the purpose of setting interim rates in the Company's next electric general rate case and as required in tracking adjustment mechanisms that may be approved by the Commission, this Partial Settlement 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.

### **Effect of the Partial Settlement**

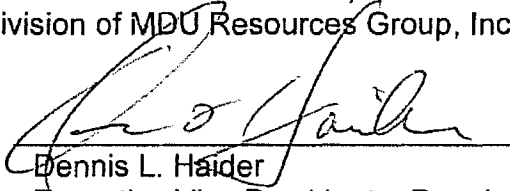
It is understood and agreed that all offers of settlement and discussions related to this Partial Settlement are privileged and may not be used in any manner in connection with proceedings in this case or otherwise, except as provided by law. This Partial Settlement shall not be deemed to prevent either the Staff or the Company from responding to positions taken by other intervenors in this proceeding; provided, however, that the Parties agree that such response shall not alter the positions and recommendations set forth in this Partial Settlement.

**Effective Date**

This Partial Settlement of Facts shall be effective as of the date hereof. It may be executed in counterparts.

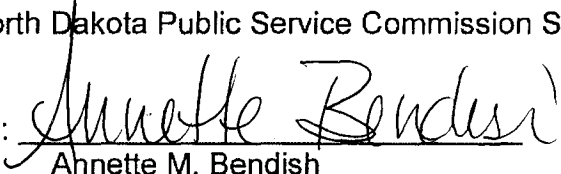
Dated this 15<sup>th</sup> day of June, 2010.

Montana-Dakota Utilities Co.,  
a Division of MDU Resources Group, Inc.

By:   
Dennis L. Haider  
Executive Vice President – Regulatory,  
Gas Supply and Business Development

Dated this 15<sup>th</sup> day of June, 2010.

North Dakota Public Service Commission Staff

By:   
Annette M. Bendish  
Counsel to Advocacy Staff

**ATTACHMENT 1**

**STIPULATED CAPITAL STRUCTURE AND OVERALL RATE OF RETURN**

	<b>Amount</b>	<b>Percent of Total Capitalization</b>	<b>Cost of Capital</b>	<b>Weighted Cost of Capital</b>
Long-Term Debt	\$280,502,591	42.232%	6.845%	2.891%
Short-Term Debt	20,829,409	3.136%	2.535%	0.079%
Preferred Stock	15,500,000	2.333%	4.590%	0.107%
Common Equity	347,368,141	52.299%	10.75%	5.622%
Total Capitalization	\$664,200,141	100.000%		8.699%