

Memo

To: Darrell Nitschke, Executive Secretary

From: Mike Diller, Director of Economic Regulation

Date: October 2, 2013

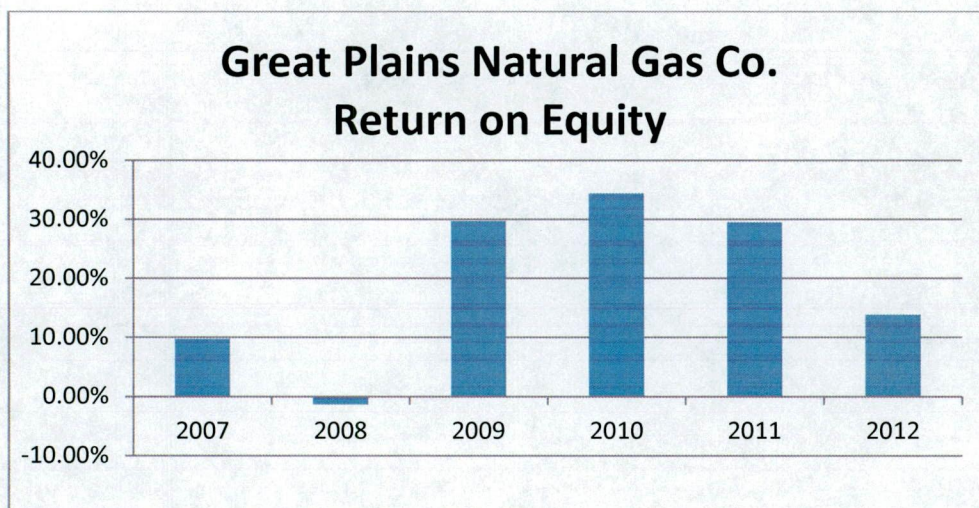
Re: Approval Recommendation for Proposed Tariff and Rate Changes
Great Plains Natural Gas Co. (Case No. PU-13-551)

On July 2, 2013, Great Plains Natural Gas Co. (Great Plains) filed an application to remove the surcharge per gas unit sold for expanding service four miles west of Wahpeton along Highway 13. In addition, Great Plains requested to change its billing units from a volumetric 1,000 cubic feet (MCF) charge to a dekatherm (DK) charge based on heat content consistent with the rest of MDU's gas system.

On July 30, 2013, the commission issued a Notice of Opportunity for Hearing and identified two issues to be considered, as follows:

1. Should the commission remove the surcharge for the extension of service west of Wahpeton along the corridor south of Highway 13?
2. Should the commission allow Great Plains to change its billing units from MCF's to DK's?

Great Plains' filing was precipitated through negotiations with staff to lower future earnings levels. As can be seen from the following chart, earnings levels have been well above 10% which is considered a more reasonable level by staff.



As you can see from the chart, earnings levels peaked in 2010 and have been declining in recent years. The decline in recent earnings has occurred because of increased rate base and expense levels. The impact of eliminating the Highway 13 expansion surcharge will lower earnings an additional 3 percentage points.

With regard to the conversion of billing units from MCF's to DK's, staff believes that billing customers based on heat content is better than using a volumetric charge. However, as you can see from the conversion calculations included in MDU's application, there is little difference. Staff has no concerns with moving to a heat value basis.

The commission has not assigned advocacy staff to this case. There are no differences of opinion between the Company and staff. No one has requested a hearing. Therefore, I will put a Motion on the Regular Agenda approving MDU's application.