

Memo

To: Darrell Nitschke, Executive Secretary
From: Sara Cardwell
Date: October 2, 2013
Re: Montana-Dakota Utilities' Interim Natural Gas Rate Increase Request (PU-13-803)

Montana-Dakota filed for a natural gas rate increase on September 18, 2013. The Company used a 2014 projected test year to calculate its interim rate relief request of \$4.5 million in increased revenue collections or an overall increase in revenue collections of 4.162%. This equates to an average increase per month for residential customers of \$2.52.

Staff finds Montana-Dakota's interim rate request in compliance with the laws and rules governing interim rate increases. Following is staff's analysis.

Staff reviewed the Commission's last rate case order (PU-399-04-97) and the Company's immediate 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.**

Montana-Dakota chooses to calculate its interim rates by using the Company's proposed return on equity of 10.0% rather than the return on equity currently authorized by the Commission of 11.329% allowed by law. Staff appreciates the recognition that today's cost of capital is lower than was authorized in the last rate case.

Determining whether or not the rate base and expenses included in the interim rate request are the "same in nature and kind" as allowed by the Commission in Montana-Dakota's last rate order is more difficult to determine given the last rate case was settled. The Settlement Agreement approved by the Commission did not specify which rate case issues were agreed to or disallowed for rate recovery. Instead, the parties agreed to settle on a mutually agreeable rate increase amount.

Therefore, it is necessary to determine in a more general sense whether or not the interim rate increase request is reasonable. Montana-Dakota's interim request removes \$2.386 million (54%) in revenue requirements from its final rate increase request to comply with the spirit of the law. The interim rate increase amount of \$4.5 million is reasonable given the legal requirements and the fact that the last case was settled without specific guidance on recoverability of certain kinds of expenses. Please note that the law provides a backstop by requiring a refund of any interim rate amounts collected in excess of the final rates approved by the Commission.

Please note that because the overall increase is only applied to non-fuel charges, the non-fuel portion of the customers' bills will increase 16.442% for all classes other than the small and large interruptible classes (8.87% and 9.835%, respectively). The large difference between the overall increase and increase applied only to the non-fuel portion of the bill occurs because 71% of Montana-Dakota's cost to provide service is fuel related.

The different percentage increases to the interruptible classes occur because a revenue sharing program is in place with Montana-Dakota to encourage customer and sales growth in these classes. Montana-Dakota applied the 16.442% to the minimum distribution charges allowable by the interruptible tariffs to minimize any additional sharing of increased revenues by the Company resulting in a lower overall percentage

(8.87% and 9.835%) that is applied to the higher than minimum rates Montana-Dakota is currently charging these classes.

Even though the commission may require a bond to ensure a refund in the event that the commission does not find in Montana-Dakota's favor, staff believes the financial security of Montana-Dakota is sufficient so as to not require a bond.

In summary, staff believes that Montana-Dakota's interim rate request is reasonable, complies with the laws and rules and should be approved for use on or after November 15, 2013. A Motion and Order has been prepared for the October 9, 2013 Commission meeting.