



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

October 18, 2013



Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

Re: Natural Gas Rate Increase Application
Case No. PU-13-803

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc. herewith submits the original and seven (7) copies of a Settlement Agreement entered into by Montana-Dakota and the Advocacy Staff of the North Dakota Public Service Commission. Acceptance of this Settlement Agreement by the Public Service Commission will resolve the issues in this proceeding except those rate design issues reserved for hearing or future negotiation.

Please acknowledge receipt by stamping or initiating the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

Garret Senger
Vice President – Regulatory Affairs and
Chief Accounting Officer

Attachment

cc: D. Kuntz
M. Diller

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

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

Case No. PU-13-803

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into by and between Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., (“Montana-Dakota” or “Company”) and the Advocacy Staff of the North Dakota Public Service Commission (“Staff”), (collectively the “Parties”). The Parties agree this Settlement Agreement resolves all outstanding expense, revenue and return issues in this case in a manner consistent with the public interest and will result in just and reasonable rates for the Company’s retail natural gas operations in North Dakota. This Settlement Agreement does not address or resolve outstanding rate design issues in this case and those issues are specifically reserved by the Parties for hearing or further negotiation.

PROCEDURAL HISTORY

A. On September 18, 2013, Montana-Dakota filed an application and notice to increase its North Dakota retail natural gas service rates to become effective October 18, 2013 based on a 2014 future test year. The Notice proposed an increase in natural gas rates to provide additional annual revenue of \$6,842,871, or an overall increase in retail revenues of 6.4 percent, over current rates. When applied to the non-fuel portion of the bill, the effective increase to firm service customers is 16.442 percent. Montana-Dakota proposed to increase charges for residential service customers by 9.5 percent

and general service customers by 2.2 percent. The Company proposed increase rates for service to small interruptible customers by 8.1 percent, to the Minot Air Force Base by 1.2 percent, and to reduce rates to large interruptible customers by 0.1 percent. Filed with the Notice were revised tariffs, direct testimony, exhibits and supporting statements.

B. Montana-Dakota concurrently submitted an Application and Notice for an interim increase in natural gas rates in the annual amount of \$4.5 million to be effective 60 days from filing if the Commission suspended the proposed general rate increase. On October 9, 2013 the Commission issued an Order approving an interim rate increase up to \$4.5 million to become effective for service rendered on or after November 17, 2013.

C. The North Dakota Public Service Commission ("Commission") suspended Montana-Dakota's general rate increase application by motion on September 25, 2013.

D. On October 9, 2013 the Commission issued a Notice of Filing and Notice of Intervention Deadline which set a deadline for intervention by November 29, 2013.

E. No person has yet filed a petition to intervene in this proceeding.

F. Settlement discussions were held between the Parties. As a result of those discussions, the Parties reached this Settlement Agreement.

G. The Settlement Agreement is supported by the administrative record. Accordingly, the Parties jointly recommend the Commission issue an Order approving this Settlement Agreement in it's entirety, without conditions or modifications.

TERMS OF SETTLEMENT AGREEMENT

1. Revenue Increase. The Parties agree to, and recommend the

Commission approve, a net increase in Montana-Dakota's natural gas rates for retail customers in North Dakota to yield an annual revenue increase of \$4.25 million effective upon a final order in this proceeding. This revenue increase is based upon a return on equity of 10.0 percent and a return on rate base of 7.881 percent. These returns do not reflect a return on Montana-Dakota's investment in its Billings Landfill gas production facility. Gas from the Billings Landfill gas production facility that is used in the Company's system gas supply will be priced for purposes of the monthly Purchased Gas Adjustment Tariff at the Company's average cost of gas for its other system gas supplies.

2. Interim Rate Increase. Montana-Dakota agrees that it will only implement \$4.25 million of the interim rate relief allowed by the Commission's order of October 9, 2013.

3. Depreciation Rates. The agreed upon returns on equity and rate base reflect Montana-Dakota's proposed depreciation rates exclusive of its proposed change to net cost of removal/salvage percentages. Any depreciation rate changes made by Montana-Dakota prior to its next rate increase application must be filed with and approved by the Commission if the effect of such changes is a reduction in annual depreciation expenses of more than \$325,000 and the Montana-Dakota's return on equity for the prior annual period was greater than 10.0 percent.

4. Margin Sharing Arrangements. Montana-Dakota's current arrangement for sharing with firm service customers the margins attributable to small interruptible gas service shall continue in effect without change. Montana-Dakota's requested arrangement, as described in its proposed Cost of Gas Rate 88, for margins derived

from interruptible sales and transportation services provided for grain drying loads should be approved and implemented as proposed.

5. Return on Equity Refunds. Except for margins received and retained by Montana-Dakota on its margin sharing arrangements as provided in paragraph 4 herein, any revenues received by Montana-Dakota in 2014 that allow it to earn an annual return on equity on its North Dakota retail natural gas distribution operations in excess of 10.0 percent shall be refunded to its North Dakota customers, and 50 percent any revenues received by Montana-Dakota after 2014 and before its next rate increase application that allow it to earn an annual return on equity on its North Dakota retail natural gas distribution operations in excess of 10.0 percent shall be refunded to its North Dakota customers. Returns on equity calculated for purposes of this paragraph shall not consider revenues and expenses associated with the Company's Supplemental Income Security Plan. All refunds under this paragraph shall be implemented in accordance with a plan filed with and approved by the Commission.

6. Rate Moratorium. Montana-Dakota agrees not to file an application for an increase in its North Dakota natural gas service rates prior to January 1, 2015.

OTHER TERMS AND CONDITIONS

1. Basis of Settlement.

It is agreed this Settlement Agreement is a negotiated settlement agreement subject to approval by the Commission. The Settlement Agreement 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.

2. Effect of the Settlement Negotiations.

It is understood and agreed that all offers of settlement and discussions related to this Agreement are privileged and may not be used in any manner in connection with proceedings in this case or otherwise, except as provided by law. In the event the Public Service Commission does not approve this Settlement Agreement, it shall not constitute part of the record in this proceeding and no part thereof may be used by any party for any purpose in this case or otherwise.

3. Applicability and Scope.

This Settlement Agreement shall be binding on the Parties, and their successors, assigns, agents, and representatives. Consistent with the Commission's settlement guidelines, this Settlement Agreement does not set policy or overturn precedent. This Settlement Agreement shall not in any respect constitute an agreement, admission or determination by any of the Parties as to the merits of any specific allegation or contention made by the Parties in this proceeding.

4. Effective Date.

This Settlement Agreement shall be effective on the date of the Commission Order approving the Settlement Agreement. The revised rates and tariff agreed to by this Settlement Agreement shall be effective on the dates specified herein.

5. Modification.

If the Commission Order modifies or conditions approval of this Settlement Agreement, it shall be deemed terminated if any party files a letter with the Commission within three (3) business days of notice of such Order stating that a condition or modification to the Settlement Agreement is unacceptable to such party.

CONCLUSION

The Parties agree to the foregoing terms to resolve the issues in this proceeding except those rate design issues reserved for hearing or further negotiation. The terms of this Settlement Agreement are a result of negotiations between the Parties, are in the public interest and will result in reasonable natural gas service rates. For these reasons, the Parties urge the Commission to approve the Settlement Agreement.

Dated this 18th day of October, 2013.

MONTANA-DAKOTA UTILITIES CO.

By: *Dorret Senger*
Its: Vice President – Regulatory Affairs
and Chief Accounting Officer

Dated this 18th day of October, 2013.

NORTH DAKOTA PUBLIC SERVICE
COMMISSION ADVOCACY STAFF

By: *Ma. Dia*
Its: Director of Economic Regulation