

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

ORDER ON SETTLEMENT

December 30, 2013

Preliminary Statement

On September 18, 2013, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (MDU) filed an application to increase its rates for natural gas service to provide additional 2014 test year annual revenue of \$6,842,871 or a 6.4% increase over current rates.

On October 9, 2013, the Commission approved MDU's request for an interim rate increase based on the projected 2014 increase request. The interim rate increase of \$4,500,000, or 4.162% over current rates, became effective for natural gas service on and after November 17, 2013. MDU is required to refund interim rate amounts in excess of final rates approved by the Commission, including interest.

Also on October 9, 2013, The Commission issued a Notice of Filing and Notice of Intervention Deadline providing until November 29, 2013 to petition to intervene in the proceeding. No petitions to intervene were received.

On October 18, 2013, MDU and Commission Advocacy Staff (Staff) entered into a Settlement Agreement. On October 23, 2013, MDU and Staff withdrew the October 18 Settlement Agreement and filed a new Settlement Agreement to resolve the expense, revenue and return issues in this proceeding. The Settlement Agreement did not address or resolve outstanding rate design issues in this proceeding.

On October 23, 2013, the Commission issued a Notice of Public Input Sessions scheduling public input on December 10, 2013 at 7:00 p.m. CST and on December 11, 2013 at 12:00 p.m. CST.

On October 24, 2013, the Commission issued a Notice of Informal Hearing and Notice of Opportunity for Hearing (Notice) providing until December 12, 2013 for comments and requests for hearing. No comments or requests for hearing were received. The Notice scheduled an Informal Hearing to begin on November 13, 2013, at 1:30 p.m. CST in the Commission Hearing Room on the 12th floor of the State

Capitol. The Notice stated the issue to be considered in this matter is whether the Settlement Agreement should be approved and adopted by the Commission for the resolution of the specific issues stated in the Settlement Agreement. The Notice stated that the Commission may make a decision on the Settlement Agreement without a hearing.

On October 24, 2013, MDU filed with the Commission its interim rate compliance tariffs and on November 13, 2013 the Commission approved the tariff to increase annual revenue collections by \$4.25 million effective for natural gas service rendered on or after November 17, 2013. .

On November 13, 2013 the Commission held an Informal Hearing to discuss the issue with MDU and Staff.

On December 10 and December 11, 2013, the public input sessions were held as scheduled.

Discussion

MDU filed its application to increase rates for natural gas service to provide additional 2014 test year annual revenue of \$6,842,871.

MDU's application indicated the primary reason for the increase in rates is the increased investment in facilities and the associated depreciation expense, operation and maintenance expenses and taxes associated with the increase in investment. MDU's application indicates:

- Gross investment in North Dakota gas operations has increased by approximately \$100 million, or approximately 76 percent, from 2004 to the projected levels for the 2014 test year. Investments since the last general rate case in 2004 include replaced or upgraded town border stations, distribution facilities for new customers and replacement of existing facilities, a landfill gas production facility, new district operation buildings, an automated meter reading system and a new customer billing system. Investment per customer has increased continually since the last general rate case.
- Increase in investment has been accompanied by a growth in customers, but MDU customers continue to conserve on natural gas use
- Operation and maintenance expenses have increased, but have decreased on a per customer basis since 2004.

MDU's application requests a return on equity of 10% and a return on rate base of 7.881%.

Through the Settlement Agreement, MDU and Commission Advocacy Staff recommend:

- MDU implement a net increase in natural gas rates for retail customers in North Dakota to yield an annual revenue increase of \$4.25 million, or approximately 3.97%, effective upon a final order in this proceeding.
- The revenue increase is based upon a return on equity of 10.0 percent, capped in 2014, and a return on rate base of 7.881 percent. These returns reflect MDU's proposed depreciation rates excluding proposed changes to net cost of removal/salvage percentages.
- 90 percent of revenue margins received from MDU grain drying customers be credited to MDU's other customers.
- Any revenues received by MDU 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 of any revenues received by MDU 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.
- The Billings Landfill Gas Production facility investment and expenses are excluded and gas from the facility that is used in MDU's system gas supply will be priced for purposes of the monthly Purchased Gas Adjustment Tariff at the MDU's average cost of gas for its other system gas supplies.

MDU agrees it will not file an application to increase North Dakota natural gas service rates prior to January 1, 2015.

The Commission finds that the Settlement Agreement should be approved and adopted for the resolution of the specific issues stated in the Settlement Agreement.

Having allowed all interested persons an opportunity to be heard, and having heard, reviewed, and considered all testimony and evidence presented, the Commission makes the following:

Order

1. The Settlement Agreement filed with the Commission on October 23, 2013, a copy of which is attached to this Order, is made a part of this Order and is APPROVED.

PUBLIC SERVICE COMMISSION


 Randy Christmann
 Commissioner


 Brian P. Kalk
 Chairman


 Julie Fedorchak
 Commissioner

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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.

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.

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. Further, 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. This is necessary because the 2014 test year revenues associated with grain drying customers served under the interruptible service rates were excluded from the determination of the test year revenue requirement. Volumes associated with the grain drying loads are difficult to predict with any certainty and therefore the margin sharing adjustment will provide a credit to all other customers through the PGA mechanism at 90 percent of actual margins received

from grain drying customers. A 90/10 sharing mechanism is appropriate to provide the Company an incentive to secure economical grain drying loads while also providing a timely credit to other customers.

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 of 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.

The returns on equity calculated for purposes of this paragraph shall not consider revenues and expenses associated with the Company's Supplemental Income Security Plan. In addition, the returns on equity will not reflect a return on Montana-Dakota's investment in its Billings Landfill gas production facility. However, gas from the Billings Landfill 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.

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 23rd day of October, 2013.

MONTANA-DAKOTA UTILITIES CO.

By: *David Seeger*
Its: Vice President – Regulatory Affairs
and Chief Accounting Officer

Dated this 23rd day of October, 2013.

NORTH DAKOTA PUBLIC SERVICE
ADVOCACY STAFF

By: *Mike Diller*
Its: Director of Economic Regulation