

February 19, 2014


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 Proposed Findings of Fact, Conclusions of Law and Order in the above referenced case. This document was drafted to allow the Commission to select either the Company's or the Advocacy Staff's proposals with the language for adoption of the Advocacy Staff's proposals in brackets.

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,



Tamie A. Aberle
Director – Regulatory Affairs

cc: Affidavit of Service by Electronic Mail
Dan Kuntz

AFFIDAVIT OF SERVICE BY ELECTRONIC MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Caitlin Straabe deposes and says that:

she is over the age of 18 years and on the 19st day of **February, 2014**, she electronically mailed to 4 recipients, electronic copies of:

Late Filed Exhibits MDU-5 and MDU-6

The electronic mails were addressed as follows:

rmnorrell@nd.gov
Ryan M. Norrell
North Dakota Public Service Commission

dnitschk@nd.gov
Darrell Nitschke
North Dakota Public Service Commission

ijs@nd.gov
Ilona Jeffcoat-Sacco
North Dakota Public Service Commission

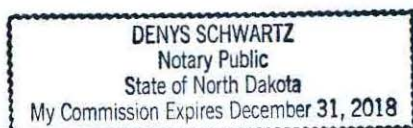
JAskvig@aarp.org
Josh Askvig
AARP North Dakota

Each email address is the respective addressee's last reasonably ascertainable electronic mailing address.

Subscribed and sworn to before me
This 19th day of **February, 2014**.

Caitlin Straabe
Denys Schwartz

SEAL



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

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

February ____, 2014

Appearances

Commissioners Brian P. Kalk, Randy Christmann and Julie Fedorchak.

Daniel S. Kuntz, Associate General Counsel, P.O. Box 5650, 1200 West Century Avenue, Bismarck, ND 58506-5650, appearing on behalf of Montana-Dakota Utilities Co.

Ryan Norrell, Legal Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, ND 58505, appearing on behalf of Public Service Commission Advocacy Staff.

Illona Jeffcoat-Sacco, General Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, North Dakota 58505, appearing on behalf of the Public Service Commission Advisory Staff.

Wade Mann, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street, Suite 303, Bismarck, North Dakota 58503 as Procedural Hearing Officer.

Preliminary Statement

On September 18, 2013, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (Montana-Dakota) filed an application to increase its rates for natural gas distribution service to provide additional 2014 test year annual revenue of \$6,800,000 or a 6.4% increase over current rates.

On October 9, 2013, the Public Service Commission (Commission) approved Montana-Dakota'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, was effective for natural gas service on and after November 17, 2013.

On October 23, 2013, Montana-Dakota and Commission Advocacy Staff (Advocacy Staff) entered into a Settlement Agreement to resolve the expense, revenue and return issues in this proceeding. The Settlement Agreement provided for implementation of 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. As part of the Settlement, Montana-Dakota agreed that it would only implement \$4.25 million of the interim rate relief allowed by the Commission. The Settlement did not address or resolve outstanding rate design issues. On December 10 and 11, 2013, the Commission held Public Input Sessions regarding the Settlement Agreement and the outstanding rate design hearings through interactive television at sites in Bismarck, Dickinson, Williston, Jamestown, Minot, and Devils Lake. On December 30, 2013, the Commission adopted an Order on Settlement approving the October 23, 2013 Settlement Agreement.

On December 30, 2013, the Commission issued a Notice of Hearing scheduling a public hearing to begin February 5, 2014 at 8:30 a.m. CST in the Commission Hearing Room, State Capitol, 12th Floor, Bismarck, North Dakota 58505 to address rate design issues not resolved by the October 23, 2013 Settlement Agreement as approved by the Commission. The notice specified the remaining issues to be considered in this matter were:

1. What rates and charges are necessary to provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?
2. Are MDU's proposed rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?

The Commission held the public hearing, as scheduled in the Commission Hearing Room, State Capitol, 600 E. Boulevard Avenue, 12th Floor, Bismarck, North Dakota 58505. In addition to appearances by Montana-Dakota, Commission Advocacy Staff, and Commission Advisory Staff, testimony and exhibits were presented by Josh Askvig on behalf of AARP North Dakota.

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:

Findings of Fact

1. Montana-Dakota is a Division of MDU Resources Group, Inc., a Delaware corporation, duly authorized to provide natural gas distribution service to retail customers in North Dakota.
2. Montana-Dakota proposes that the revenue increase from the Settlement Agreement be allocated among the customer classes as follows:

	<u>Revenue Increase</u>
Residential	5.03%
Firm General Service	2.17%
Air Force	1.19%
Small Interruptible	8.05%
Large Interruptible	-0.07%
 Total North Dakota	 3.95%

3. Montana-Dakota's proposed revenue increase to the customer classes was based upon a class cost of services study it prepared showing the following returns among the customer classes before application of the revenue increase from the Settlement Agreement:

	<u>ROR Without Increase</u>
Residential	2.433%
Small Firm General Service	5.988%
Large Firm General Service	8.653%
Air Force	12.162%
Small Interruptible	3.308%
Large Interruptible	13.054%

4. Montana-Dakota's proposed revenue allocation among the customer classes would result in an average monthly increase of \$2.72 for a typical Residential customer using 92 dk on an annual basis. A Small Firm General Service customer (Rate 70 with a meter rated less than 500 cubic feet per hour) would see an increase of approximately \$4.85 per month, and a Large Firm General Service customer (Rate 70 with a meter rated 500 cubic feet per hour or more) would see an increase of approximately \$6.44 per month.

5. Montana-Dakota's proposed revenue allocation among the customer classes would provide the following class rates of return based on its class cost of service study:

	<u>ROR With Increase</u>
Residential	6.143%
Firm General Service	10.274%
Air Force	35.217%
Small Interruptible	10.102%
Large Interruptible	13.037%

6. Montana-Dakota's class cost of service study follows generally accepted principles and practices based on the NARUC Gas Utility Cost Allocation Manual. The study allocates 25 percent of distribution main investment and associated operation and maintenance expenses to the customer cost component. The Staff proposed that 100 percent of such investment and expense be assigned to the demand cost component. This revision to the class cost of service study would result in increased

rates of return under the existing rate structure from the Residential customer class and decreased returns from the Firm General, Small Interruptible, and Large Interruptible classes.

7. Changes in utility rate design should have as overall objectives: (1) rates should be based on or moved towards cost; (2) increases or decreases should be distributed equitably; (3) administering changes should be practical; and (4) rate shock should be avoided.

8. The Advocacy Staff proposed assigning equal percentage increases to all classes other than the Large Interruptible class. The Advocacy Staff's proposal would result in the following percentage increases among the customer classes taking into account discounted large interruptible contract rates would not be increased:

	<u>Revenue Increase</u>
Residential	4.0%
Firm General Service	4.0%
Air Force	4.0%
Small Interruptible	4.0%
Large Interruptible	1.8%
Total North Dakota	4.0%

9. Both Montana-Dakota's and the Staff's proposed customer class allocation are a reasonable allocations of the revenue increase from the Settlement Agreement as both are consistent with the rate design objectives stated above. The Commission adopts Montana-Dakota's [the Advocacy Staff's] proposal because it better moves rates towards costs and does not result in any material rate shock or distribution inequities [because it moves rates towards costs while mitigating the impact of the revenue increase to any particular class].

10. Montana-Dakota proposed to collect the entire amount of distribution revenues assigned to the Residential class (Rates 60 and 90) through a fixed daily charge denoted as the "Delivery Service Charge". The proposed Delivery Service Charge applicable under Rates 60 and 90, based on MDU's proposed 5 percent allocation of the revenue increase to the Customer class, equates to a daily charge of \$0.5941 or \$18.07 per month on average. This fixed charge would replace the current Basic Service Charge (fixed per day at \$.30 per day) and the Distribution Delivery Charge (charge per dk of \$0.812 for the delivery of natural gas) for Residential customers. This change would also eliminate the application of Montana-Dakota's Distribution Delivery Stabilization Mechanism (Rate 87), which adjusts rates for weather normalization for Residential customers.

Montana-Dakota also proposed to increase the Basic Service Charge for the other rate schedules as shown below:

	<u>Current</u>	<u>Proposed</u>	
Firm General Service			
< 500 cubic ft/hr	\$0.52	\$0.67	per day
> 500 cubic ft/hr	1.75	1.90	per day
Air Force			
Firm	135.00	175.00	per month
Interruptible	1,000.00	2,000.00	per month
Small Interruptible			
Sales	100.00	300.00	per month
Transportation	150.00	300.00	per month
Large Interruptible			
Sales	675.00	2,200.00	per month
Transportation	725.00	2,200.00	per month

After taking into account the revenue increase associated with the proposed changes in the Basic Service Charge, Montana-Dakota proposed the remaining increase in revenues be collected through the applicable Distribution Delivery Charge components charged to the above customer classes on a per dk basis.

11. The Advocacy Staff supports Montana-Dakota's proposal to recover all non-gas Residential customer revenues through the fixed Delivery Service Charge because residential usage is primarily for space heating such that most customers generally use a comparable amount of gas delivered through comparable service facilities. Advocacy Staff also supports Montana-Dakota's proposal to shift recovery of a larger portion of demand related costs through an increased customer charge for the other customer classes but proposes to moderate the extent of the increase as shown below to prevent rate shock:

	<u>Customer Charge</u>
Small Interruptible	\$175.00
Small Transportation	\$175.00
Large Interruptible Sales	\$1,000.00
Large Interruptible Transportation	\$1,000.00

12. AARP proposed that the current Basic Service Charge for the Residential customer class not be increased or alternatively that not all non-gas Residential customer revenues be recovered through a fixed customer charge. AARP contends recovery of all non-gas Residential revenues through a fixed monthly charge will have a negative impact on low usage customers and discourage conservation. AARP

presented 194 petitions from its members, solicited on-line by AARP, opposing the proposed increased Residential fixed customer charge.

13. Not all of the petitions submitted by AARP were from Montana-Dakota customers. It also appears that the offsetting effects of the elimination of the volumetric non-gas charge and corresponding financial benefit to above average usage customers was not thoroughly explained in the solicitation of the petitions.

14. The recovery of all non-gas costs assigned to the Residential class through a fixed charge rate will not significantly discourage conservation. The cost of the gas commodity, which currently comprises approximately 65 percent of the average bill for a Residential customer, will continue to be recovered on a volumetric basis. Moreover, while conservation actually reduces commodity costs and therefore has a direct correlation to cost savings, it does not significantly reduce non-commodity costs that must be recovered to provide safe and reliable service to both high and low usage customers.

15. The Benefits of recovering non-gas costs through a fixed monthly charge for Residential customers are:

- Utility profits are decoupled from sales volumes, thus eliminating any disincentive for the utility to promote conservation among residential customers.
- Residential billing is simplified by removal of both the distribution delivery volumetric charge and the Distribution Delivery Stabilization Mechanism.
- Seasonal differences in utility revenues and customer bills are stabilized as winter gas bills are lessened while summer bills are increased.
- The impact of significantly colder-than-normal weather on customer bills is mitigated without the application of the Distribution Delivery Stabilization Mechanism.
- Fluctuations in the utility's earnings as the result of weather fluctuations and customer conservation are mitigated thereby reducing the frequency of rate increases.
- Revenues are better matched to the investment made to serve each residential customer with a typical service line, meter and regulator at the same average cost.
- Inequities and cross subsidies between high usage and low usage customers are reduced, particularly with respect to customers using natural gas as a backup energy source during peak periods.

16. There is no demographic evidence available in the record that demonstrates a correlation between the average volume of residential gas usage and either customer age or income level.

17. The Commission adopts Montana-Dakota's proposal, also supported by Advocacy Staff, to recover all non-gas Residential customer revenues through a fixed customer charge. Gradually implementing this rate design change as proposed by

AARP will not realize the full value of the previously recited benefits. In particular, partial implementation would necessitate continuation of some measure of a volumetric charge for these non-gas revenues as well as continuation of the Distribution Delivery Stabilization Mechanism adjustment.

18. The Commission adopts the Montana-Dakota [Advocacy Staff] proposal to increase the customer charge to the other customer classes.

19. Because the interim rate increase as implemented by Montana-Dakota provided the same level of increased revenues as that provided under the approved Settlement Agreement, a refund of revenues collected under the interim rate increase is not required.

From the foregoing Findings of Fact, the Commission makes the following:

Conclusions of Law

1. The Commission has jurisdiction in these proceedings.
2. The rates proposed by Montana-Dakota [as adjusted per the Findings of Fact] are necessary to provide a just and reasonable rate of return on Montana-Dakota's property, used and useful, for the service and convenience of the public in North Dakota.
3. The rates proposed by Montana-Dakota [as adjusted per the Findings of Fact] is designed to result in a basis of charge to its customers that is just and reasonable without discrimination.

From the foregoing Findings of Fact and Conclusions of Law, the Commission makes the following:

Order

The Commission Orders:

1. Montana-Dakota 's proposed rate [as adjusted per the Findings of Fact] are APPROVED.
2. Montana-Dakota shall file, for Commission approval, compliance rate schedules consistent with this Order.

PUBLIC SERVICE COMMISSION

Randy Christmann
Commissioner

Brian P. Kalk
Chairman

Julie Fedorchak
Commissioner