

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 ON RATE DESIGN

April 9, 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.

Ilona 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 with the North Dakota Public Service Commission (Commission) an increase in natural gas rates for retail customers in North Dakota to yield an annual revenue increase in 2014 test year revenue of \$6,842,871, which is a 6.4% increase over current rates. Montana-Dakota also filed an interim rate increase of \$4.5 million, or 4.162% over current rates.

On September 25, 2013, the Commission suspended the rate increase.

On October 9, 2013, the Commission ordered that the interim rates take effect for natural gas service on and after November 17, 2013, and that Montana-Dakota 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 23, 2013, Montana-Dakota and Commission Advocacy Staff (Staff) filed a Settlement Agreement to resolve the expense, revenue and return issues in this proceeding. The Settlement Agreement provides for an increase in test year revenue 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 implement interim rate relief of only \$4.25 million. The Settlement Agreement did not address or resolve all rate design issues.

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, Montana-Dakota 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 the Informal Hearing as scheduled.

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?

On February 5, 2014, the Commission held the public hearing as scheduled. In addition to testimony and exhibits by Montana-Dakota and Staff, testimony and exhibits were presented by Josh Askvig on behalf of Association of American Retired Persons (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.

Allocation of Costs to Customers

2. Montana-Dakota proposes that the increase in 2014 test year revenue of \$4.25 million from the Settlement Agreement be allocated among the customer classes as follows:

	Revenue Increase
Residential	5.03%
Firm General Service	2.17%
Air Force	1.19%
Small Interruptible	8.05%
Large Interruptible	-0.07%

3. Montana-Dakota's proposed revenue increase to the customer classes is intended to narrow the difference in rate of return from each customer class closer based upon a class cost of services study it prepared.

4. 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.

5. 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.

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

	Revenue Increase
Residential	4.0%
Firm General Service	4.0%
Air Force	4.0%
Small Interruptible	4.0%
Large Interruptible	1.8%

7. Both Montana-Dakota and AARP agreed that Staff's proposed assignment of increase to customer classes is acceptable. The Commission finds that Staff's proposal is a reasonable allocation of the revenue increase from the Settlement Agreement and is consistent with the rate design objectives stated above. The Commission adopts Staff's proposal because it moves rates towards costs while mitigating the impact of the revenue increase to any particular class.

Customer Rates

8. Montana-Dakota proposes to collect the entire amount of distribution revenues assigned to residential customers through a fixed daily charge denoted as the Delivery Service Charge. The new Delivery Service Charge that would be applicable under Staff's proposed assignment of a 4.0% increase to residential customers equates to a daily charge of approximately \$0.58 or \$17.51 per month on average. The new Delivery Service Charge would replace the current Basic Service Charge of \$0.30 per day and

the Distribution Delivery Charge of \$0.812 per dk. Also, Montana-Dakota's Distribution Delivery Stabilization Mechanism (Rate 87), which adjusts rates for weather normalization for residential customers would be eliminated.

9. Montana-Dakota cited several benefits for implementing a fixed daily charge and eliminating the Distribution Delivery charge including: (1) a fixed daily charge would mitigate the impact of significantly colder-than-normal weather on customers' bills, without the application of the Distribution Delivery Stabilization Mechanism, (2) customers have incentive to conserve as the cost of gas, representing 65 percent of a typical residential customer's bill, would continue to be billed on a volumetric basis, (3) a fixed daily charge would provide a better match of revenues to the investment made to serve each residential customer with a typical service line, meter and regulator at the same average cost, and (4) a fixed daily charge would address inequities caused by customers using natural gas as a backup energy source during peak periods.

10. Staff supported Montana-Dakota's proposal to assess a fixed daily charge and eliminate the Distribution Delivery charge and cited several advantages including: (1) utility profits are decoupled from sales volumes thus eliminating any disincentive for promoting conservation among residential customers and (2) seasonal differences in utility revenues and customers' bills are evened out. Staff further testified this method has worked well with other companies the Commission regulates.

11. AARP proposes that the current Basic Service Charge for the residential customers not be increased or alternatively that it not be increased to recover all non-gas residential customer revenues. AARP contends that recovery of all non-gas residential revenues through a fixed monthly charge will have a negative impact on low usage customers and discourage conservation.

12. At the hearing, AARP testified that it was not opposed to increasing the Basic Service Charge, moving toward the charge indicated by Montana-Dakota's cost study, but did not support recovery of all non-gas residential customer revenues through the charge.

13. The Commission finds that adopting a Basic Service Charge for residential customers of \$0.493 per day or \$15.00 per month on average is reasonable because it moves rates towards costs while mitigating the impact of the rate change for residential customers. After taking into account the revenue increase associated with a \$15.00 Basic Service Charge, the remaining increase in revenues would be collected through the Distribution Delivery Charge to the residential customer class on a per dk basis, approximately \$0.327 per dk. Implementation of this charge may necessitate continuation of the Distribution Delivery Stabilization Mechanism adjustment.

14. Montana-Dakota also proposes to increase the Basic Service Charge for the other customer classes as shown below:

Customer Charge	Current	Proposed
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.

15. Staff proposes to moderate Montana-Dakota's proposed increases in customer charges for the other customer classes as shown below to prevent rate shock:

Customer Charge	Customer Charge
Small Interruptible	\$175.00
Small Transportation	\$175.00
Large Interruptible Sales	\$1,000.00
Large Interruptible Transportation	\$1,000.00

16. The Commission adopts the Staff proposal for increasing the customer charge to the other customer classes because it moves rates towards costs while mitigating the impact of the rate change for those customers.

17. 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, are just and reasonable.

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

Order

The Commission Orders:

1. Montana-Dakota's proposed rates, 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

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**Dissenting Opinion
Commissioner Brian P. Kalk**

April 9, 2014

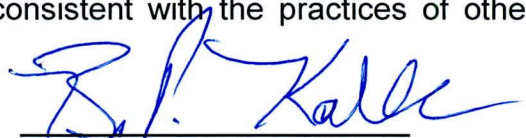
I dissent from the majority decision. The decision insufficiently addresses information in the record provided by an interested party. The appropriate rate design in this case is a fixed charge for residential service of \$0.44 per day, or approximately \$13.60 per month, not the amount ordered by the majority.

At the hearing, a representative of the American Association of Retired Persons (AARP) testified on behalf of AARP. Generally, the AARP requested that the Commission not implement the full fixed charge increase and continue some volumetric charge for recovery of fixed costs. AARP reasoned that such action would mitigate the impact of the increase and permit a larger portion of a residential customer's bill to benefit from conservation efforts.

When asked what fixed charge increase AARP would find acceptable, the AARP representative responded that the customer charge should move half-way between where it is now and full recovery. Moving the fixed charge half-way to full recovery results in a fixed charge for residential customers of \$0.44 per day, or approximately \$13.60 per month.

It is important that the Commission recognize the efforts of persons and organizations who take an interest in our cases. When an interested party makes a request and provides good rationale for its position, the Commission should meet that request when possible.

A fixed charge for residential service of \$0.44 per day, or approximately \$13.60 per month, moves MDU toward recovery of more of the costs of distribution through a fixed charge, is supported by the record, and consistent with the practices of other regulated utilities in the state.



Brian P. Kalk
Chairman