

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

May 20, 2014



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

Re: Case Nos. PU-14-108 and PU-14-109  
Amended Application for an Electric  
Generation Resource Recovery Rider  
Tariff and Rates

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.

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

- 17 PU-14-109 Filed 05/20/2014 Pages: 16  
Executed Settlement Agreement  
Montana-Dakota Utilities Co. / Public Service Commission Advocacy Staff  
Garret Senger / Mike Diller
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Executed Settlement Agreement  
Montana-Dakota Utilities Co. / Public Service Commission Advocacy Staff  
Garret Senger / Mike Diller

**STATE OF NORTH DAKOTA**  
**PUBLIC SERVICE COMMISSION**

Montana-Dakota Utilities Co.  
a Division of MDU Resources Group, Inc.  
Generation Resource Recovery Rider Tariff

Case No. PU-14-108

Montana-Dakota Utilities Co.  
a Division of MDU Resources Group, Inc.  
Generation Resource Recovery Rider Rates

Case No. PU-14-109

**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, upon approval by the North Dakota Public Service Commission (“Commission”), resolves all 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 electric operations in North Dakota.

**PROCEDURAL HISTORY**

A. On February 27, 2014, Montana-Dakota filed an application for Commission approval of a Generation Resource Recovery Rider Tariff (“Generation Rider”). The Company also proposed rate adjustments under the Generation Rider to recover North Dakota’s share of the investment in the Heskett III 88 MW Simple Cycle Combustion Turbine Station (“Heskett III”) expected to be operational in July 2014. Filed with the Application were revised tariffs, direct testimony, exhibits and supporting statements.

The Commission issued an Advance Determination of Prudence for Heskett III in Case No. PU-11-395 and a Certificate of Public Convenience and Necessity in Case No. PU-11-396. The Heskett III project is nearing completion at an estimated cost of \$76.1 million, approximately 11 percent less than the projected costs included in the ADP in Case No. PU-11-395.

Montana-Dakota requested approval of the Generation Rider with an initial rate adjustment effective on or after the in-service date of Heskett III as to provide a recovery on the Heskett III investment and associated operating costs. The proposed rate adjustment was intended to recover the costs of the Heskett III project and would result in a monthly increase of \$3.62 for a typical residential customer using 894 Kwh per month. The proposed rate adjustments under the Generation Rider, by rate class, reflecting estimated costs for the period July 2014 through July 2015 with an expected effective date of August 1, 2014 were as shown below:

|                               |                   |
|-------------------------------|-------------------|
| Residential and Small General | \$0.00405 per Kwh |
| Large General                 | \$0.00324 per Kwh |
| Lighting                      | \$0.00195 per Kwh |

Montana-Dakota proposed to file an updated rate adjustment under the Generation Rider annually with the Company ceasing recovery for the Heskett III resource through the Generation Rider when the investment is included in effective rates after a general rate filing.

B. The Commission suspended Montana-Dakota's application by motion on March 12, 2014.

C. On May 9, 2014 Montana-Dakota filed an Amended Application for a Generation Rider that removed the costs of the natural gas pipeline from the revenue

requirement. The revised revenue requirement is \$5,270,008. The revised monthly increase for a typical residential customer using 894 Kwh per month is \$2.57. The proposed rate adjustments under the Generation Rider, by rate class, reflecting estimated costs for the period July 2014 through June 2015 with an expected effective date of August 1, 2014 are as shown below:

|                               |                   |
|-------------------------------|-------------------|
| Residential and Small General | \$0.00288 per Kwh |
| Large General                 | \$0.00231 per Kwh |
| Lighting                      | \$0.00139 per Kwh |

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

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

F. The Settlement Agreement is supported by the administrative record. Accordingly, the Parties recommend the Commission issue an Order approving this Settlement Agreement in its entirety, without conditions or modifications.

1. **Generation Resource Recovery Rider Tariff.** The Parties agree to, and recommend the Commission approve, a Generation Rider establishing a mechanism to recover the costs of large generation resources incurred outside of a general rate proceeding. The approved Generation Rider should be in the form attached hereto as Attachment A. Montana-Dakota shall file the approved Generation Rider as a compliance filing within 15 days of the Commission's approval of this Agreement.

2. **Rate Adjustment under the Generation Rider.** The Parties agree, and recommend the Commission approve, that Montana-Dakota will withdraw its pending rate adjustment under the Generation Rider. On or after August 1, 2014, Montana-Dakota may re-file the rate adjustment in the amount and in the manner provided herein

to recover North Dakota's share of the costs of the Heskett III combustion turbine and associated facilities, including those facilities necessary to interconnect the Heskett III generator with Montana-Dakota's existing electric transmission system. Montana-Dakota may re-file the rate adjustment upon a reasonable showing that the combination of its current and projected earnings for the year are expected to be below a return level of 10.75% ROE. Costs to be recovered include a return on capital expenditures including AFUDC, operating expenses, depreciation, and taxes. The rate adjustment under the Generation Rider shall not include recovery of the costs of the natural gas pipeline constructed to supply fuel for the Heskett III generator. Rather, the costs of the pipeline shall be recovered in the manner provided in paragraph 8. A rate adjustment for recovery of Heskett III costs may remain in effect, subject to re-calculation as provided in paragraph 5, until the Heskett III costs are included in retail rates following a general rate filing.

3. **Revenue Requirement.** The parties agree that the annual revenue requirement associated with the Heskett III generator is \$5,270,008 as provided in Attachment B. For purposes of this Agreement, Montana-Dakota's revenue requirement is based upon a return on equity of 10.75 percent.

4. **Effective Date.** The rate adjustment for recovery of the Heskett III costs shall be effective thirty days following the re-filing by the Company in accordance with paragraph 2. The Company will keep the Staff informed of any developments (and provide supporting documents) leading up to the decision to refile in order to accommodate the expedited approval process.

5. **Recovery Method.** The revenue requirement associated with cost recovery of the Heskett III generator will be allocated among the customer classes using a demand factor, excluding the lighting schedules. The lighting schedules are excluded from the increase due to the class producing returns much greater than the overall allowed return coupled with the fact that most lighting services have an associated general service account that will see the increase. The rate adjustment for recovery of the revenue requirement within the customer classes will be recovered on fixed charge basis for the residential and small general service classes. The rate adjustment for recovery of the revenue requirement for the large general service class is based on peak demand applied on a per KW basis.

6. **Annual Filing.** The Company will file with the Commission a recalculation of the rate adjustment based upon the annual revenue requirement stated in paragraph 3 and projected energy sales for the subsequent annual period on an annual basis. The filing is to be coordinated with the Company's Annual Reports to the Commission so earnings levels are considered each year prior to authorizing new or modified rate adjustments under the Generation Rider.

7. **Return on Equity Refunds.** Fifty percent of any revenues received by Montana-Dakota in 2014 that allow it to earn an annual return on equity on its North Dakota retail electric operations in excess of 10.75 percent shall be refunded to its North Dakota customers. All refunds under this paragraph shall be implemented in accordance with a plan filed with and approved by the Commission.

8. **Pipeline Costs Recovery.** The Parties agree to, and recommend the Commission approve an agreement between the Company's Gas Utility and the

Company's Electric Supply Group for provision of firm natural gas services to the Heskett III Station. The agreement will allow for: (1) recovery of the costs incurred to construct, maintain and operate the pipeline constructed for delivery of natural gas to the Heskett III generator; (2) credit for marginal revenues received from third parties receiving natural gas distribution service off of the pipeline; and (3) credit for value, if any, provided by the pipeline for reliability and support to Montana-Dakota's natural gas distribution system. Amounts paid under this rate for provision of natural gas service to the Heskett III Station shall be recovered under the Fuel and Purchased Power Adjustment Rate 58. The Parties recommend approval of the revisions to the Fuel and Purchased Power Adjustment Rate 58 provided in Attachment C.

## **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 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. The terms of this Settlement Agreement are a result of negotiations between the Parties, are in the public interest and will result in reasonable rates. For these reasons, the Parties urge the Commission to approve the Settlement Agreement.

Dated this 20th day of May 2014.

Montana-Dakota Utilities Co.,  
a Division of MDU Resources Group, Inc.

By: David J. Senger  
Vice President-Regulatory Affairs & CAO

Dated this 20th day of May 2014.

North Dakota Public Service Advocacy Staff

By: Mark Diller  
Director of Economic Regulation

**Attachment A**

# **Attachment A**



# Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4<sup>th</sup> Street  
Bismarck, ND 58501

## State of North Dakota Electric Rate Schedule

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NDPSC Volume 4  
Original Sheet No. 40

### Generation Resource Recovery Rider Rate 56

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Page 1 of 2

**1. Applicability:**

This rate schedule represents a Generation Resource Recovery Rider (GRRR) and specifies the procedure to be utilized to recover the jurisdictional costs associated with generation resource additions approved by the Commission but not recovered through retail rates. Costs to be recovered may include operations and maintenance expenditures, depreciation, taxes, and a current return on the project costs during construction. Costs being recovered under this tariff are currently not included in the rates established at the time of the Company's last general rate case.

**2. Generation Resource Recovery Rider:**

- a. The North Dakota jurisdictional GRRR revenue requirement will be allocated to the customer classes based on the forecasted 12 month coincidental peak allocation factor for each class. The adjustment applied to the Residential and Small General Service Classes will be calculated based on the customer class revenue requirement and the forecasted number bills for the forecasted period and expressed on a daily basis. The adjustment applied to the Large General Service Class will be calculated based on the customer class revenue requirement and the forecasted demand for the forecasted period and expressed as a KW charge. The return component of the revenue requirement calculation will be the authorized rate of return from the Company's most recent general rate case.
- b. The GRRR is applicable to all retail customers for electric energy sold, except those served under lighting schedules and special contracts, and are allocated amongst the rate classes based on the an applicable demand factor.
- c. The GRRR will be adjusted annually (or other period authorized by the Commission) to reflect the Company's most recent projected capital costs and related expenses for projects determined to be recoverable under this schedule.
- d. A true-up will reflect any over or under collection of revenue under the GRRR based on actual expenditures from the preceding twelve month recovery period plus carrying charges or credits accrued at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.

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**Date Filed:** May 20, 2014

**Effective Date:**

**Issued By:** Tamie A. Aberle  
Director – Regulatory Affairs

**Case No.:** PU-14-108 & PU-14-109



# Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4<sup>th</sup> Street  
Bismarck, ND 58501

## State of North Dakota Electric Rate Schedule

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NDPSC Volume 4  
Original Sheet No. 40.1

### Generation Resource Recovery Rider Rate 56

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**3. Time and Manner of the Filing:**

Montana-Dakota shall file the GRRR at least 60 days prior to the proposed effective date. The filing by Montana-Dakota shall be made by means of a revised GRRR tariff sheet identifying the amounts of the adjustment, the derivation of the GRRR and the resulting GRRR by class.

**4. Generation Resource Recovery Rider:**

|               |                |
|---------------|----------------|
| Residential   | 0.000¢ per Day |
| Small General | 0.000¢ per Day |
| Large General | 0.000¢ per KW  |

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**Date Filed:** May 20, 2014

**Effective Date:**

**Issued By:** Tamie A. Aberle  
Director – Regulatory Affairs

**Case No.:** PU-14-108 & PU-14-109

**MONTANA-DAKOTA UTILITIES CO.  
REVENUE REQUIREMENT - HESKETT TURBINE  
NORTH DAKOTA  
JULY 1, 2014-JUNE 30, 2015**

|                               |                           |
|-------------------------------|---------------------------|
| <u>Revenue Requirement 1/</u> |                           |
| O&M                           | \$284,988                 |
| Depreciation                  | 843,710                   |
| Taxes Other than Income       | 219,624                   |
| Return 2/                     | 2,755,668                 |
| Income Taxes 2/               | 1,166,018                 |
| Total                         | <u><u>\$5,270,008</u></u> |

Average Rate Base 1/ \$34,062,647

1/ Exhibit No. \_\_\_\_ (TAA-2), page 2.

2/ Exhibit No. \_\_\_\_ (TAA-2), page 3.

**Montana-Dakota Utilities Co.  
Electric Utility - North Dakota  
Generation Resource Recover Rider  
Heskett III - Per Settlement Agreement  
Flat Rate Design**

|               |                                | Embedded Class<br>COS Study<br>Factor No. 2 1/ | North Dakota<br>Projected 2014<br>Generation Costs 2/ | Flat Rate<br>Determinant | Charge            |
|---------------|--------------------------------|--|---|--------------------------|-------------------|
| Residential   | (Rates 10 & 13)                | 44.903633%                                     | \$2,366,425   | 75,367                   | \$0.08602 per day |
| Small General | (Rates 20 & 25)                | 7.191273%                                      | \$378,981   | 10,989                   | \$0.09449 per day |
| Large General | (Rates 30, 31, 32, 38, 40, 48) | 47.905094%                                     | 2,524,602   | 3,188,261                | \$0.79 per KW     |
|               |                                | 100.000000%                                    | \$5,270,008   |                          |                   |

1/ Projected 2014 Class demand allocation based on 12 CP.

2/ Total Revenue Requirement \$5,270,008

3/ August 2014 -July 2015 projected sales (KWh) excluding contract sales.

|                                       | 12-CP Factor 2<br>Projected 2014 |             |
|---------------------------------------|----------------------------------|-------------|
| Residential Rate 10                   | 165,090                          | 44.903633%  |
| Small General Rate 20                 | 26,360                           | 7.169785%   |
| Irrigation Rate 25                    | 79                               | 0.021488%   |
| Large General Primary Rate 30         | 24,401                           | 6.636947%   |
| Large General Secondary Rate 30       | 129,517                          | 35.227959%  |
| TOD Large General Rate 31             | 1,689                            | 0.459399%   |
| Space Heating Rate 32                 | 8,682                            | 2.361459%   |
| Small Municipal Rate 40               | 701                              | 0.190668%   |
| Municipal Lighting Primary Rate 41    | 0                                | 0.000000%   |
| Municipal Lighting Secondary Rate 41  | 0                                | 0.000000%   |
| Municipal Pumping Secondary Rate 48   | 3,620                            | 0.984621%   |
| Municipal Pumping Primary Rate 48     | 1,760                            | 0.478711%   |
| Outdoor Lighting Rate 52              | 0                                | 0.000000%   |
| Interruptible Power Rate 39           | 0                                | 0.000000%   |
| Interruptible Demand Response Rate 38 | 5,755                            | 1.565330%   |
|                                       | 367,654                          | 100.000000% |

1/ Excludes internal rate codes 303, 304 and 30T and 390.

**Attachment C**

# **Attachment C**



# Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.  
400 N 4<sup>th</sup> Street  
Bismarck, ND 58501

## State of North Dakota Electric Rate Schedule

NDPSC Volume 4

25<sup>th</sup> Revised Sheet No. 42.2

Canceling 24<sup>th</sup> Revised Sheet No. 42.2

### FUEL AND PURCHASED POWER ADJUSTMENT Rate 58

Page 3 of 3

2. Refunds from supplier(s) and market operators with respect to fuel and purchased power costs.
3. Carrying charges or credits at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.
4. The balance in the Deferred Fuel Cost Account shall be decreased each month by the amount of the Surcharge Adjustment multiplied by the Kwh sales for the month. The amount amortized shall be applied pro rata between the Deferred Fuel Cost Account and the interest balance.

#### 5. Manner of Filing:

The Company shall file a monthly statement showing the calculation of the Fuel and Purchased Power Adjustment with the Commission prior to implementing the monthly adjustment. The adjustment in rates shall be effective with service rendered on and after the first day of each month, unless the Commission shall otherwise order.

#### 6. Fuel and Purchased Power Adjustment:

|                                     | Primary | Secondary |
|-------------------------------------|---------|-----------|
| Base Fuel                           | 2.024¢  | 2.087¢    |
| Fuel and Purchased Power Adjustment | 0.546   | 0.558     |
| Total FPPA                          | 2.570¢  | 2.645¢    |

Date Filed: May 20, 2014

Effective Date:

Issued By: Tamie A. Aberle  
Director- Regulatory Affairs

Case No.: PU-14-108 & PU-14-109