

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.
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Generation Resource Recovery Rider Rates

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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, 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: 
Vice President-Regulatory Affairs & CAO

Dated this 20th day of May 2014.

North Dakota Public Service Advocacy Staff

By: 
Director of Economic Regulation