

November 14, 2014

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505-0480

Re: Case No. PU-14-109
Request to Implement Rates under
Electric Generation Resource Recovery
Rider Tariff

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., herewith files an original and seven (7) copies of its request for approval to implement the rate adjustments to recover the Heskett Station III generation investment under the electric Generation Resource Recovery Rider (GRRR) tariff approved by the Commission on August 20, 2014 in Case No. PU-14-108.

Montana-Dakota herewith requests authority to implement the following tariff sheets (provided in Exhibit A) to be effective with service rendered on and after January 1, 2015:

- Original Sheet No. 40 – Generation Resource Recovery Rider Rate 56
- First Revised Sheet No. 40.1 – Generation Resource Recovery Rider Rate 56

Note that while the Company did not file compliance tariffs in Case No. PU-14-108, the tariff sheets were approved. For this reason, Tariff Sheet No. 40.1 is being submitted as First Revised Sheet No. 40.1 to reflect the fact that the tariff was previously approved with no rate established.

As called for in the Settlement Agreement between the Commission Advocacy Staff and the Company, approved by the Commission on August 20, 2014, the rate adjustments under the GRRR were withdrawn while the Settlement Agreement provided the Company the opportunity to re-file the rate adjustments in the amount and manner prescribed by the Settlement Agreement upon a showing that the combination of its current and projected earnings for the year are expected to be below a return level of 10.75 percent ROE.

Page 1 of Exhibit B provides a projection of expected returns for 2014 and calendar year 2015. As shown, based on actual results through September 30, 2014 and projections for the fourth quarter, Montana-Dakota anticipates a return on equity of 10.24 percent for its North Dakota electric operations in 2014. This return includes the addition of the Heskett III station as of August 2014. Based on these projections, Montana-Dakota does not expect that a refund will be applicable for calendar year 2014 as required pursuant to Paragraph 7 of the May 20, 2014 Settlement Agreement.

Montana-Dakota also provides its 2015 projections for North Dakota electric operations based on an anticipated increase in sales of 12 percent, increased operation and maintenance expenses and increased investment of approximately \$112 million, exclusive of the Big Stone AQCS project, by year end 2015 producing an expected ROE return of 8.20 percent with the inclusion of the GRRR. The investments planned to go into service in 2015 include: additional transmission build out including incremental substations and associated transmission lines; upgrades to existing substations; replacement projects and 20 MW of incremental generation to be added at the Lewis & Clark Station. Absent the implementation of the GRRR, the Company projects a return on equity of 7.39 percent for 2015.

Page 2 of Exhibit B provides a projection of the Company's rate base for 2014 and 2015. Page 3 contains the Company's projected capital structure for 2014 and 2015. Page 4 of Exhibit B provides the calculation of the rate adjustments under the GRRR effective with service provided on and after January 1, 2015.

The proposed rate adjustments under the GRRR, by rate class, reflecting the annual revenue requirement of \$5,270,008 authorized under the Settlement Agreement and projected sales for calendar year 2015, are shown below and set forth on amended Sheet No. 40.1 of the proposed Rate Schedule 56. In accordance with the Amendment to Settlement Agreement submitted on July 25, 2014, the revenue requirement was allocated among the customer classes based on the forecasted 12 month coincidental peak allocation factor excluding lighting schedules and contract customers. The amounts to be recovered from the Residential and Small General Service schedules are stated on a per Kwh basis and the amounts to be recovered from the Large General Service schedules are stated on a per Kw or peak demand basis.


Residential	\$0.00283 per Kwh
Small General	\$0.00223 per Kwh
Large General	\$0.75 per Kw

The monthly increase for a typical residential customer using 894 Kwh per month is \$2.53.

Montana-Dakota will submit its \$50 filing fee separately from this application pursuant to the requirements of North Dakota Century Code Section 49-05-05.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,



Tamie A. Aberle
Director of Regulatory Affairs

Attachments

cc: Daniel S. Kuntz

Exhibit A

Exhibit A



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
Original Sheet No. 40

Generation Resource Recovery Rider Rate 56

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 Kwh for the forecasted period. 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.

Date Filed: November 14, 2014

Effective Date:

Issued By: Tamie A. Aberle
Director – Regulatory Affairs

Case No.: PU-14-109



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
1st Revised Sheet No. 40.1
Cancelling Original Sheet No. 40.1

Generation Resource Recovery Rider Rate 56

Page 2 of 2

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	0.283¢ per Kwh
Small General	0.223¢ per Kwh
Large General	75.000¢ per KW

Date Filed: November 14, 2014

Effective Date:

Issued By: Tamie A. Aberle
Director – Regulatory Affairs

Case No.: PU-14-109

Tariffs Reflecting Proposed Changes



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
Original Sheet No. 40

Generation Resource Recovery Rider Rate 56

Page 1 of 2

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- 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.

Date Filed: July 24, 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 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
Original Sheet No. 40.1

Generation Resource Recovery Rider Rate 56

Page 2 of 2

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Date Filed: July 24, 2014

Effective Date:

Issued By: Tamie A. Aberle
Director – Regulatory Affairs

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

MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA ELECTRIC RETURNS
NORTH DAKOTA
2013 AND PROJECTED 2014 & 2015

INCOME STATEMENT

	2013	Projected 2014	Projected 2015
Operating Revenues			
Sales	\$ 152,910	\$ 168,410	\$ 190,638
Sales for Resale	378	413	-
Other	6,925	6,746	7,005
Total Revenues	<u>160,213</u>	<u>175,569</u>	<u>197,643</u>
Operating Expenses			
Operation and Maintenance			
Cost of Fuel & Purchased Power	49,648	54,088	66,824
Other O&M	50,156	53,099	62,028
Total O&M	<u>99,804</u>	<u>107,187</u>	<u>128,852</u>
Depreciation	21,147	22,858	25,387
Taxes Other Than Income	5,282	5,780	6,230
Current Income Taxes	(5,102)	(2,126)	5,889
Deferred Income Taxes	12,458	10,555	-
Total Expenses	<u>133,589</u>	<u>144,254</u>	<u>166,358</u>
Operating Income	\$ 26,624	\$ 31,315	\$ 31,285
Average Rate Base	\$ 296,185	\$ 389,991	\$ 496,031
Return on Rate Base	8.99%	8.03%	6.31%
Return on Equity	12.64%	10.24%	7.39%
Operating Income - Incl. GRRR			\$ 33,285
Return on Rate Base - Incl. GRRR			6.71%
Return on Equity - Incl. GRRR			8.20%

**MONTANA-DAKOTA UTILITIES CO.
 NORTH DAKOTA ELECTRIC UTILITY
 NORTH DAKOTA
 2013 TO PROJECTED 2014 & 2015**

AVERAGE RATE BASE

	2013	Projected 2014	Projected 2015
Electric Plant in Service	\$ 716,525	\$ 800,915	\$ 913,037
Accumulated Reserve	334,554	349,427	368,410
Net Electric Plant in Service	<u>381,971</u>	<u>451,488</u>	<u>544,627</u>
Additions:			
Materials and Supplies	11,233	10,497	11,139
Fuel Stocks	3,072	2,999	2,705
Prepayments	422	542	336
Unamortized Loss on Debt	3,582	3,396	3,157
Decommission of Retired Plant	(317)	(278)	(239)
Total Additions	<u>17,992</u>	<u>17,156</u>	<u>17,098</u>
Deductions			
Accumulated DITs	100,252	112,054	119,355
Accumulated ITCs	791	1,206	1,442
Customer Advances	2,735	2,601	2,399
Total Deductions	<u>103,778</u>	<u>115,861</u>	<u>123,196</u>
Total Average Rate Base	<u>\$ 296,185</u>	<u>\$ 352,783</u>	<u>\$ 438,529</u>
Big Stone AQCS CWIP/Plant In-Service		37,208	57,502
Average Rate Base - Including AQCS	<u>\$ 296,185</u>	<u>\$ 389,991</u>	<u>\$ 496,031</u>

**MONTANA-DAKOTA UTILITIES CO.
 NORTH DAKOTA ELECTRIC UTILITY
 NORTH DAKOTA**

ACTUAL AVERAGE 2013

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	39.834%	6.149%	2.449%
Short Term Debt	7.677%	0.788%	0.060%
Preferred Stock	1.923%	4.583%	0.088%
Common Equity	50.566%	10.750%	5.436%
Total	<u>100.000%</u>		<u>8.033%</u>

PROJECTED AVERAGE 2014

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	42.590%	6.092%	2.595%
Short Term Debt	3.877%	1.209%	0.047%
Preferred Stock	1.625%	4.577%	0.074%
Common Equity	51.908%	10.750%	5.580%
Total	<u>100.000%</u>		<u>8.296%</u>

PROJECTED AVERAGE 2015

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	40.642%	6.092%	2.476%
Short Term Debt	8.259%	1.209%	0.100%
Preferred Stock	1.472%	4.577%	0.067%
Common Equity	49.627%	10.750%	5.335%
Total	<u>100.000%</u>		<u>7.978%</u>

**Montana-Dakota Utilities Co.
 Electric Utility - North Dakota
 Generation Resource Recover Rider
 2015 Rates**

		Class Allocation 1/	Allocated Heskett III Revenue Requirement 2/	Determinants 3/	Charge
Residential	(Rates 10 & 13)	44.903633%	\$2,366,425	836,999,813	\$0.00283 per Kwh
Small General	(Rates 20 & 25)	7.191273%	\$378,981	170,186,360	\$0.00223 per Kwh
Large General	(Rates 30, 31, 32, 38, 40, 48)	47.905094%	\$2,524,602	3,367,246	\$0.75 per KW
		<u>100.000000%</u>	<u>\$5,270,008</u>		

- 1/ Class demand allocation based on 12 CP (Factor 2).
- 2/ Revenue Requirement authorized in Case No. PU-14-109
- 3/ Projected 2015 KWH for Residential and Small General Service;
 Projected 2015 KW Demand for Large General Service.