



Public Service Commission

State of North Dakota

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June 1, 2015

Tamie A Aberle
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck ND 58501

RE: Case Number **PU-14-109**
Montana-Dakota Utilities Co.,
a Division of MDU Resources Group, Inc.
Generation Resource Cost Recovery
Rates

At its regular Commission meeting on May 27, 2015, the North Dakota Public Service Commission passed a motion approving Montana-Dakota Utilities Co.'s 2014 Earnings Sharing Adjustment in the above-referenced case. A copy of the Commission motion and memo is enclosed.

Sincerely,

Handwritten signature of Amy Haugen in cursive.

Amy Haugen
Office Assistant, Public Utilities

Enclosure

cc – Daniel S Kuntz

70 **PU-14-109** Filed: 6/1/2015 Pages: 4
Letter enclosing Commission Motion and
memorandum

Public Service Commission

APPROVED

DATE: 5-27-15
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MOTION

May 27, 2015

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

Case No. PU-14-109

I move the Commission approve Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. Earnings Sharing Adjustment for the year ending 2014, Case No. PU-14-109.

MRD

Memo

To: Darrell Nitschke, Executive Secretary
From: Mike Diller
Date: May 18, 2015
Re: Montana-Dakota Utilities Company
2014 Electric Earnings Sharing Provision
Case No. PU-14-109

On April 2, 2015 Montana-Dakota Utilities Co. (MDU) submitted its electric operation's earnings sharing adjustment for the year ended 2014 pursuant to the commission's Order on Settlement. Staff has reviewed the proposal and recommends that the proposed refund be approved. A motion to approve will be included on the next agenda, May 27, 2015. The customer credit of .239 cents per kWh will be applied to customers' bills in June and July resulting in a monthly credit of \$2.14 for the average residential customer using 894 kWh's per month.

Brief History of Case

On February 27, 2014 Montana-Dakota Utilities Co. (MDU) filed to implement a generation resource cost recovery rider tariff under North Dakota Century Code section 49-05-05 to recover costs associated with its new 88 MW simple cycle combustion turbine generator known as Heskett III located at Mandan, North Dakota.

On August 20, 2014 the commission approved a Settlement Agreement approving a rider but delaying cost recovery of the new generator under the rider until MDU's earnings became insufficient to cover the additional revenue requirement.

On November 14, 2014 MDU filed a request to implement the rate adjustments necessary to recover the additional costs of Heskett III to be effective January 1, 2015.

On December 17, 2014 the commission discussed this matter with MDU and commission staff at an informal hearing. For the year ending 2015, MDU estimates it will earn 7.39% return on stockholder equity absent this generation cost rider and 8.20% return on stockholder equity with the rider. During the discussions, MDU agreed to refund 50% of any 2014 or 2015 earnings in excess of 10.75% return on equity.

Analysis

According to its filing on November 20, 2014 MDU projected a revenue deficiency of \$1.6 million for 2014. In its 2014 report of actual earnings, MDU reported excess earnings of \$1.4 million or a difference of \$3 million. The primary difference between MDU's estimates and actuals for 2014 pertain to a difference in sales and production expenses or gross margins. Staff expressed concern at the Informal Hearing about the predictability of gross margins.

MDU made two adjustments to its reported 2014 earnings to exclude a reserve for refund that it had booked in 2014 and margins from sales for resale that are already credited to customers via the Fuel and Purchased Power Adjustment. Staff believes the adjustments are reasonable.

In its November 20, 2014 filing, MDU projected a revenue deficiency of about \$13.4 million using a 10.75% ROE for the next year ending 2015. The generation rider effective January 1, 2015 will add \$5.3 million of additional revenue in 2015. Given MDU's forecast, it seems unlikely that additional revenue sharing will occur for 2015.