

Memo

To: Darrell Nitschke, Executive Secretary
From: Victor Schock
Date: March 4, 2015
Re: Montana-Dakota Utilities (MDU) Interim Natural Gas Rate Increase Request (PU-15-90)

MDU filed for a natural gas rate increase on February 6, 2015. The Company used a 2015 projected test year to calculate its interim rate relief request of \$4.3 million in increased revenue collections or an overall increase in revenue collections of 3.4%. This equates to an average increase per month for residential customers of \$2.40.

Staff finds Montana-Dakota's interim rate request in compliance with the laws and rules governing interim rate increases. The following is staff's analysis.

Staff reviewed the Commission's last rate case order (PU-13-803) and the Company's current interim rate request for compliance with the laws and rules governing interim rate increases. The applicable section of law reads:

49-05-06. Hearing by commission on proposed change of rates.

- 2. Notwithstanding that the commission may suspend a filing and order a hearing, a public utility may file for interim rate relief as part of its general rate increase application and filing. If interim rates are requested, the commission shall order that the interim rate schedule take effect no later than sixty days after the initial filing date and without a public hearing. The interim rate schedule must be calculated using the proposed test year cost of capital, rate base, and expenses, except that the schedule must include:**
 - a. A rate of return on common equity for the public utility equal to that authorized by the commission in the public utility's most recent rate proceeding;**
 - b. Rate base or expense items the same in nature and kind as those allowed by a currently effective commission order in the public utility's most recent rate proceeding; and**
 - c. No change in existing rate design.**
- 3. In ordering an interim rate schedule, the commission may require a bond to secure any projected refund required by subsection 4. The terms of the bond, including the amount and surety, are subject to the commission's approval.**

- 4. As ordered by the commission, the utility shall promptly refund to persons entitled thereto all interim rate amounts collected by the public utility in excess of the final rates approved by the commission plus reasonable interest at a rate to be determined by the commission.**

MDU calculated its interim rates by using the return on common equity authorized in the last rate case of 10.0%.

MDU's rate base and expenses are the "same in nature and kind" as allowed by the Commission in MDU's last rate order.

MDU's proposed interim rates do not change the existing rate design. Because the overall increase is only applied to the Basic Service Charge and the Distribution Delivery Charge, the non-fuel portion of the customers' bills will increase 13.523% for all classes other than the small and large interruptible classes (8.669% and 8.309%, respectively). The smaller percentage increase for the interruptible classes is due to their Distribution Delivery Charge. Interruptible customers are billed at the maximum Distribution Delivery Charge rate listed in their rate schedule. Through a Margin Sharing Mechanism, the Distribution Delivery Charge amounts billed over the minimum rate listed in their rate schedule are shared with firm customers (90%) and shareholders (10%). The increase for the interruptible classes was calculated at 13.523% of their minimum Distribution Delivery Charge rate. The large difference between the overall increase and increase applied only to the non-fuel portion of the bill occurs because 71% of MDU's cost to provide service is fuel related.

Even though the commission may require a bond to ensure a refund in the event that the commission does not find in MDU's favor, staff believes the financial security of MDU is sufficient so as to not require a bond.

In summary, staff believes that MDU's interim rate request complies with the laws and rules and should be approved for use on or after April 7, 2015. A Motion and Order has been prepared for the March 11, 2015 Commission meeting.

Sincerely,



Victor Schock
Public Utility Analyst
Public Service Commission
600 East Boulevard Avenue, Dept 408
Bismarck, ND 58505