

**STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION**

**Montana-Dakota Utilities Co., a Division  
of MDU Resources Group, Inc.  
Natural Gas Service Rate Increase  
Application**

**Case No. PU-15-90**

**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 ("Advocacy Staff"), (collectively the "Settling Parties"). The Settling Parties agree this Settlement Agreement, if approved by the Public Service Commission ("Commission"), would resolve all outstanding expense, revenue, return, and rate design 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 natural gas operations in North Dakota. The AARP and the Federal Executive Agencies, as intervenors, agree to those portions of the Settlement Agreement as indicated. The AARP and the Federal Executive Agencies object to and reserve all of their rights to contest those portions of the Settlement Agreement to which they have not indicated agreement.

**PROCEDURAL HISTORY**

1. On February 6, 2015, Montana-Dakota filed an application and notice to increase its North Dakota retail natural gas service rates based on a 2015 test year. The Application proposed an increase in natural gas rates to provide additional annual revenue of \$4,301,515, or an overall increase in projected annual retail revenues of 3.4 percent, at current rates as of the filing date. Filed with the Application were revised

tariffs, direct testimony, exhibits and supporting statements. The Company proposed the requested annual revenue increase be divided among the customer classes as follows:

<u>Customer Class</u>	<u>Revenue Increase</u>	
	<u>\$</u>	<u>%</u>
Residential	\$3,932,060	5.8%
Firm General	0	0.0%
Air Force Delivery	0	0.0%
Small Interruptible	369,455	6.8%
Large Interruptible	0	0.0%
Total	<u>\$4,301,515</u>	<u>3.4%</u>

2. Montana-Dakota concurrently submitted an Application and Notice for an interim increase in natural gas rates in the annual amount of \$4.3 million, or 3.4 percent over projected annual revenues at current rates as of the filing date, to be effective 60 days from filing. On March 11, 2015 the Commission issued an Order approving an interim rate increase of \$4.3 million to become effective for service rendered on or after April 7, 2015.

3. The Commission suspended Montana-Dakota's general rate increase application by motion on February 11, 2015.

4. On March 11, 2015, the Commission issued a Notice of Public Input Sessions and Notice of Hearing, scheduling public input sessions for April 13, 2015 and April 14, 2015, and scheduling the formal hearing for July 20, 2015. The Notice of Hearing also encouraged anyone interested in becoming a party to the proceeding to file a petition to intervene by June 1, 2015. The public input sessions were held as scheduled. On May 26, 2015, Advocacy Staff and Montana-Dakota filed an agreement for an extension of the rate suspension to November 30, 2015, in order to

accommodate the rescheduling of the formal hearing to August 31, 2015. On May 27, 2015, the Commission issued a Notice of Rescheduled Hearing to begin August 31, 2015.

5. Petitions to Intervene were filed by the AARP and the Federal Executive Agencies. On July 2, 2015, the Administrative Law Judge granted the petitions to intervene of AARP and the Federal Executive Agencies.

6. A prehearing conference was held July 24, 2015 establishing times for the Advocacy Staff and Intervenors to file written testimony and for the Company to file rebuttal testimony. The Advocacy Staff and the Federal Executive Agencies filed direct testimony and the Company filed rebuttal testimony on August 21, 2015.

7. Settlement discussions were held between the Settling Parties pursuant to the Commission's Settlement Guidelines dated January 4, 1995. Notice of the settlement discussions was provided to the Intervenors. AARP participated in the settlement discussions by telephone. As a result of those discussions, the Settling Parties reached this Settlement Agreement.

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

#### TERMS OF SETTLEMENT AGREEMENT

1. Revenue Increase. The Settling Parties agree to, and recommend the Commission approve, a net increase in Montana-Dakota's natural gas rates for retail customers in North Dakota to yield an annual revenue increase of \$2.563 million effective upon a final order in this proceeding. The proposed rates will produce annual

revenues of \$2,564,997 based on the proposed rates with the difference due to rounding occurring in the rate design process. This revenue increase is based upon a return on equity of 9.50 percent and a return on rate base of 7.340 percent.

2. Pension and Post-Retirement Expense. The Company's test year included \$426,000 for pension and post-retirement expenses based upon actuarial studies. For ratemaking purposes, the Settling Parties agree this amount shall be reduced to \$115,000. The difference between the amount included in the test year and the amount incurred as reflected in actuarial studies during each year effective upon approval of this Settlement Agreement and implementation of final rates, in accordance with the GAAP and the Uniform System of Accounts, shall be deferred as a regulatory asset or liability. An order approving this Settlement Agreement shall be considered as an accounting order for future rate and accounting treatment of these accounts.

3. Insurance Expense. The Settling Parties agree that the Company's projected self-insurance expense should be reduced by \$67,373 to appropriately reflect annual self-insurance costs.

4. Regulatory Commission Expense. The Company's test year regulatory case expense attributable to the filing fee assessed by the Commission assumed the entire filing fee of \$175,000 would be incurred by the Commission. The Settling Parties agree this amount should be reduced by \$150,000 and the adjusted expense amortized over three years.

5. Projected Volumes. The Settling Parties agree that the Company's projected volumes for the Firm General Service class customers should be increased based on current data available through May of 2015. The adjustment results in a n

increase of 299 customers; 490,376 dk and \$565,124 in distribution revenues for the Firm General Service customer class.

6. Rate Stabilization Plan. The Settling Parties agree that the Company's proposed Rate Stabilization Plan is withdrawn. The Company reserves the right to file at a future date for a proposed cost recovery tracker for major investments associated with pipeline integrity, reliability, or system expansion.

7. Margin Sharing Arrangements. Montana-Dakota's current arrangement for sharing of the margins attributable to small interruptible and larger interruptible gas sales service with firm service customers shall be discontinued and the market based margins shall be treated as distribution operating revenues. This change results in an increase of \$269,345 in distribution revenues thereby offsetting the incremental revenues required as part of this rate case. Montana-Dakota's current margin sharing arrangement, as described in its Cost of Gas Rate 88, for margins derived from interruptible sales and transportation services provided for grain drying loads shall continue without change.

8. Rate Design. The Settling Parties agree the annual revenue increase should be allocated among the customer classes as follows:

<u>Customer Class</u>	<u>Revenue Increase</u>	
Residential	\$2,264,589	3.34%
Firm General	0	0.00%
Air Force Delivery	-39,767	- 1.63%
Small Interruptible	340,175	6.78%
Large Interruptible	0	0.00%
Total	<u>\$2,564,997</u>	<u>1.96%</u>

The Settling Parties agree the annual revenue requirement allocated to the

residential class should be recovered through an increase in the Basic Service Charge from \$0.4935 per day (\$0.5602 per day under interim rates) to \$0.6443 per day (\$19.60 per month) and that the Distribution Delivery Charge under Rate 60 should be eliminated resulting in a decrease of \$0.326 per dk. The Distribution Delivery Stabilization Mechanism will no longer apply to service provided under Rate 60 because of recovery of all distribution costs through the fixed charge.

9. Customer Refunds. The Company shall issue refunds to customers to reflect the difference in annual revenues collected by the Company under the interim increase approved effective April 7, 2015 and the effective date of the final rates approved by the Commission. The refund per customer will be calculated by multiplying the actual interim charges collected during the period from April 7, 2015 through the effective date of the final rates by 40.404 percent and applying interest at the rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board to the average monthly refund balance. The final refund factor percent will be determined, including interest, and applied to the amount collected from each customer. This amount will be credited to customer accounts for active customers and checks will be issued if the account was inactive and the refund was \$5.00 or greater. Any un-refunded balance associated with customers no longer active accounts with a refund of less than \$5.00, and the difference due to rounding, will be credited to the Unrecovered Purchased Gas Cost Account.

#### OTHER TERMS AND CONDITIONS

A. 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.

B. 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.

C. Applicability and Scope. This Settlement Agreement shall be binding on the Settling 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 Settling Parties as to the merits of any specific allegation or contention made by the Settling Parties in this proceeding.

D. 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.

E. Modification. If the Commission Order modifies or conditions approval of this Settlement Agreement, it shall be deemed terminated if any Settling 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 Settling Parties agree that adoption to the foregoing terms would resolve the issues in this proceeding. The terms of this Settlement Agreement are a result of negotiations between the Settling Parties, are in the public interest and will result in reasonable natural gas service rates. For these reasons, the Settling Parties urge the Commission to approve the Settlement Agreement.

Dated this 26<sup>th</sup> day of August, 2015.

MONTANA-DAKOTA UTILITIES CO.

By: Harriet Senger

Its: Executive Vice President –  
Regulatory Affairs & CAO

Dated this 26<sup>th</sup> day of August, 2015.

NORTH DAKOTA PUBLIC SERVICE  
ADVOCACY STAFF

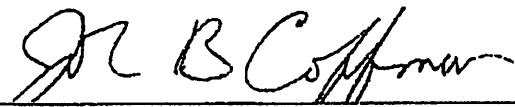
By: Jacobson

Its: Special Assistant Attorney General

AARP does not object to those terms in the foregoing Settlement Agreement that relate to "revenue requirement" issues (i.e., issues involving the appropriate expenses, revenues, and rate of return that would be recognized in the overall revenue requirement). Conditioned on AARP's opportunity to fully litigate the rate design issues in this case at the hearing commencing on Monday, August 31, 2015, AARP consents to the proposed resolution of revenue requirement issues and stipulates to the admission of the written testimony that has been filed on those issues.

AARP does object to the terms of Settlement Agreement that relate to Company's rate design (i.e., the terms set out in Paragraph 8). AARP disagrees with the Settling Parties about the way that the Company's annual revenue increase should be allocated and applied among the customer classes and how any increase should be applied within the residential customer class. AARP believes that the residential class should receive a rate change closer to the system average. AARP is also opposed to a residential gas delivery rate that is comprised only of a single fixed Basic Service Charge. AARP would prefer that any rate change for the residential customer class be applied through volumetric (usage-based) components, in order to maintain a more just and reasonable balance between the fixed and variable rate components for gas delivery.

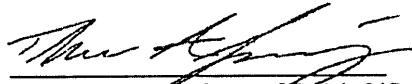
AARP

By: 

John B. Coffman  
Attorney for AARP  
Dated this 25<sup>th</sup> day of August, 2015.

The Federal Executive Agencies agree and accept the terms of the foregoing Settlement Agreement without exception.

Respectfully submitted this 24th day of August, 2015.



Thomas A. Jernigan, GS-14, USAF

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