

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

Montana-Dakota Utilities Co., a Division of)
MDU Resources Group, Inc.) **Case No. PU-15-90**
Natural Gas Service Rate Increase Application)

AARP’S PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

Comes Now AARP, an intervenor party, and suggests the following findings of fact and conclusions of law, on the remaining contested issues in this rate case:

Customer Class Allocation for the Rate Increase

1. The non-unanimous August 26, 2015 Settlement Agreement (“Settlement Agreement”) entered into between Montana-Dakota Utilities Co (“Company” or “MDU”) and the Commission’s Advocacy Staff (“Staff”) proposes applying \$2,264,589 of the agreed upon revenue requirement increase of \$2,564,997 to the residential class. See Paragraph 8, p. 5. This proposal would place 89% of the revenue requirement increase in this rate case upon MDU’s residential customers. While the overall rate increase would be 1.96%, the residential class would experience a 3.34% increase.
2. The Settlement Agreement proposes no increase to the Large Interruptible customer class and no increase to the Firm General customer class. The Air Force Delivery customer class would receive a small decrease in their rates.
3. The class cost of service study performed by MDU is instructive merely as a useful guide. It is understood that such studies can be performed in a different ways, potentially reaching a wide variety of conclusions. See the Direct testimony of Mike Diller, pp. 12-13. The Staff performed no comparative class cost of service study on its own in this rate case. The Commission has traditionally avoided mechanical application of the results of any class cost of

service study, applying its own judgment after considering the evidence, arguments, and public policy in a particular case to reach a conclusion with regard to the appropriate rate design.

4. Whenever the Commission has previously not ordered an across-the-board increase to all customer classes, its general practice has been to ensure that no customer class should receive less than one-half or more than twice the overall percentage increase granted, thus avoiding rate shock. Direct testimony of Mike Diller, p. 19. MDU and the Staff suggest that the Commission abandon this approach in its Settlement Agreement proposal; however the Commission will adhere to this past practice.
5. The Commission finds that Paragraph 8 of the Settlement Agreement with regard to rate design proposes a rate design that would be unbalanced and unfair to residential consumers and thus requires modification so that ordinary household customers will not have their monthly natural gas delivery rate increased so much higher than the system average increase. The ratemaking principles of proportionality, public acceptance, and gradualism require that the Commission modify the Settlement Agreement proposal to be consistent with these principles of a just and reasonable rate design, and to be consistent with past Commission practice.
6. Applying appropriate rate design principles and past Commission practice in this particular rate case requires a minimum 1% increase to each customer class, which is essentially one-half of the overall revenue requirement increase of 1.96%. The resulting 1% increases to the Firm General customer class, the Air Force Delivery customer class, and the Large Interruptible customer classes (which would have otherwise received no increase in rates) shall be correspondingly applied to reduce the rate increase proposed for the Residential class. This mitigation of the proposed rate increase to the Residential Class is in the public interest and will avoid undue discrimination in the application of the revenue requirement increase.

Basic Service Charge for Residential Customers

7. The Settlement Agreement proposes that the revenue requirement increase to the Residential class be applied completely to the mandatory fixed Basic Customer Charge, while eliminating all volumetric or usage-based charge from the natural gas delivery. Ibid., Paragraph 8, pp. 5-6.

8. Under the Settlement Agreement proposal, the following percentage increases would occur, based upon an average residential customer using 94 dekatherms (Dk) annually, as well as to customers at other natural gas usage levels above and below that level:

<u>Annual Dk</u>	<u>Distribution Charge Increase</u>	<u>Total Annual Increase</u>
0	\$235.17 (30.5%)	\$239.48 (32.9%)
48	235.17 (20.1%)	507.42 (9.4%)
94	235.17 (11.5%)	764.19 (3.9%)
140	235.17 (4.1%)	1,020.96 (1.3%)

[MDU Exhibits 13 and 14; Tamie Aberle hearing testimony]

9. The disparate rate impacts of such a “straight-fixed variable” rate design proposal would cause an unjust and unreasonable result between high usage and low usage customers, and would constitute unfair and undue discrimination against those consumers that use less than the average amount of natural gas. For example, under the Settlement Agreement proposal, an elderly customer living alone in a small dwelling would likely experience a significantly higher overall rate increase than the system average 3.4% rate increase, while high consumption users in large homes are likely to experience rate changes that are barely noticeable.
10. The Settlement Agreement proposal on residential rate design would also have a dramatic impact on natural gas rates during the summer months. During the months of June, July, August, and September, the average customer would experience greater than a 14% increase in their overall monthly bills. [MDU Exhibits 13]. Residential customers already have the option to sign up for “Balance Billing” in order to spread out their bill payments over the year, if they so choose. The Settlement Agreement proposal in this case would take away that customer choice with regard to the delivery rate and is thus unreasonable.
11. Both MDU witness Tamie Aberle and Staff witness Mike Diller acknowledged at the evidentiary hearing that, according to the MDU cost study, some gas delivery costs to serve the residential class are allocated based upon factors other than the number of *customers*. There are significant costs to serve residential customers which should be appropriately allocated based upon *demand* factors, as well as some costs that should be appropriately allocated based upon *energy* usage. In order to fairly recognize all three categories of cost, the rate design for the residential class should not simply apply costs to a single mandatory fixed charge (Basic Service Charge). Therefore, to accept that proposal would be to ignore the cost study placed into the evidentiary record of this rate case. This

Commission will not accept an extreme rate design option that is not based upon the competent and substantial evidentiary record regarding the cost to serve these customers, which clearly shows that there are costs to serve MDU residential customer which are also related to demand factors and to energy factors and are variable in nature.

12. In order to reach a “just and reasonable” rate design, the Commission believes that the residential natural gas delivery rate should be more balanced between its fixed components and its usage-based (volumetric) components. It is too extreme to assume that all of the operational costs of the utility can be fairly divided equally among each residential customer.
13. The Commission believes that MDU consumers deserve the greatest possible economic reward for their conservation efforts. Further increasing the fixed Basic Service Charge diminishes the control that consumers have over their monthly bills, because it reduces the usage based portion of the natural gas delivery rate.
14. In the previous 2014 MDU rate case, public comments were raised regarding the proposal to implement a single mandatory fixed Basic Service Charge and eliminate all usage components from the gas delivery rate. After much comment and testimony, the Commission adopted a compromise. The Commission’s final determination last year in the previous MDU rate case established a fixed Basic Service Charge of approximately \$14.80/month, which represented a dramatic increase for small users at the time, and appropriately retained some usage-based components within the gas delivery rate.
15. The Commission orders that the current Basic Service Charge of approximately \$14.80/month still represents a fair and balanced rate design compromise. The compromise grants significant revenue stability to the utility, while still preserving some usage-based factors in the delivery rate. If the Commission were to adopt another dramatic increase in the fixed part of the ordinary consumer’s bill, and ignore all demand-related and energy-related cost factors from the delivery rate, would be too extreme within a short period. A just and reasonable result in this rate case requires that the Basic Service Charge remain at its current level, and that any revenue requirement increase to the residential class shall be applied to its volumetric components.

Order

16. The non-unanimous Settlement Agreement proposal requires modification in order to provide a just and reasonable rate design for all of MDU’s customers without undue discrimination. See Modification procedure in Paragraph E on

pages 7-8. Paragraph 8 of the Settlement Agreement shall be modified in order to be consistent with the findings contained in this Order. MDU is hereby instructed to provide proposed tariffs and schedules in compliance with this order for review by the Commission and by other parties seven days prior to final approval.

17. Within sixty (60) days of the Commission's approval of compliance rates, MDU shall issue refunds to customers to reflect the difference in annual revenues collected under the interim increase and the effective date of the compliance rates approved by the Commission. The refunds shall be calculated in the manner provided for in Paragraph 9 of the Settlement Agreement.

-NORTH DAKOTA PUBLIC SERVICE COMMISSION

Respectfully proposed this 23rd day of September, 2015.



John B. Coffman, #36591
John B. Coffman, LLC
871 Tuxedo Blvd.
St. Louis, MO 63119-2044
Telephone: (573) 424-6779
john@johncoffman.net

Attorney for AARP

CERTIFICATE OF SERVICE

I hereby certify that the original and seven (7) copies of the foregoing, were hand-delivered to the Secretary of the North Dakota Public Service Commission, with a complete service copy thereof mailed, either electronically or via the United States Postal Service, to the parties on the official service list for this proceeding, including the following:

Tamie Aberle
Director of Regulatory Affairs Montana-Dakota Utilities Co.
tamie.aberle@mdu.com

Daniel S. Kuntz
Montana-Dakota Utilities Co.
dan.kuntz@mduresources.com

John C. Degnan
AFLOA/JACE-USFSC
John.Degnan@us.af.mil

Juan J. Godinez
AFLOA/JACE-ULFSC
Juan.Godinez.2@us.af.mil

Thomas A. Jernigan
AFLOA/JACE-ULFSC
Thomas.Jernigan.3@us.af.mil

Paul Sanderson
Evanson Sanderson, PC
psanderson@esattorneys.com

Illona Jeffcoat-Sacco
General Counsel
Public Service Commission
ijs@nd.gov



John B. Coffman