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

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

November 4, 2015

Appearances

Commissioners Julie Fedorchak, Brian P. Kalk, and Randy Christmann.

Daniel S. Kuntz, Associate General Counsel, P.O. Box 5650, 1200 West Century Avenue, Bismarck, ND 58506-5650 and Paul Sanderson, Evenson Sanderson, PC, 103 S. 3rd St., Suite 5, Bismarck, ND 58501, appearing on behalf of Montana-Dakota Utilities Co.

John M. Schuh, Legal Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, ND 58505, appearing on behalf of Public Service Commission Advocacy Staff.

Thomas A. Jernigan, Litigation Attorney, AFCEC/JA-Utility Law Field Support Center, 139 Barnes Dr., Tyndall AFB, FL 32403-5317, appearing on behalf of the Federal Executive Agencies.

John B. Coffman, John B. Coffman, LLC, 871 Tuxedo Blvd., St. Louis, MO 63119-2044, appearing on behalf of AARP.

Illona Jeffcoat-Sacco, General Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, North Dakota 58505, appearing on behalf of the Public Service Commission.

Wade Mann, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street, Suite 303, Bismarck, North Dakota 58503 as Procedural Hearing Officer.

Preliminary Statement

On February 6, 2015, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (MDU) filed an application to increase its rates for natural gas distribution service to provide additional 2015 test year annual revenue of $4,301,515 or a 3.4% increase over revenue expected from current rates.

On March 11, 2015, the Public Service Commission (Commission) approved MDU's request for an interim rate increase under North Dakota Century Code section 49-05-06(2) based on the projected 2015 increase request. The interim rate increase of $4.3 million was effective for natural gas service on and after April 7, 2015.

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 encouraged anyone interested in becoming a party to the proceeding to file a petition to intervene by June 1, 2015.

Public input sessions were held as scheduled via interactive television at locations in Bismarck, Devils Lake, Dickinson, Minot, Valley City and Williston.

On May 26, 2015, Advocacy Staff and MDU 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. The notice specified the issues to be considered in this matter as:

1. What rates and charges are necessary to provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota?

2. Are MDU's proposed rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?

Petitions to Intervene were filed by the AARP and the Federal Executive Agencies. On July 6, 2015, the Administrative Law Judge granted the petitions to intervene of AARP and the Federal Executive Agencies.

On August 26, 2015, MDU, Public Service Commission Advocacy Staff (Advocacy Staff), AARP and the Federal Executive Agencies filed a Settlement Agreement that would resolve all the issues in this proceeding except that AARP objected to the portion of the agreement relating to rate design and allocation of the revenue increase among the customer classes.

The rescheduled public hearing was held as scheduled in the Commission Hearing Room, State Capitol, 600 E. Boulevard Avenue, 12th Floor, Bismarck, North Dakota 58505.

Settlement Agreement

The Settlement Agreement provided for implementation of a net increase in natural gas rates for retail customers in North Dakota to yield an annual revenue increase of $2.563 million, or approximately 1.96%, effective upon a final order in this proceeding. The Settlement Agreement would 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. As part of the Settlement, MDU agreed that it would 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 rates approved by the Commission effective as the date of the Commission's order.

The Settlement was supported in its entirety by the Federal Executive Agencies. The AARP did not object to the terms of the Settlement Agreement relating to the revenue requirement issues but objected to the rate design and customer class allocation provisions of the Settlement Agreement.

The Commission adopts the test year revenue requirement yielding an annual revenue increase of $2.563 million as provided in the Settlement Agreement and finds that it will provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota.

Having allowed all interested persons an opportunity to be heard, and having heard, reviewed and considered all testimony and evidence presented, the Commission makes the following:

Findings of Fact

1. Montana-Dakota Utilities Co. (MDU) is a Division of MDU Resources Group, Inc., a Delaware corporation, duly authorized to provide natural gas distribution service to retail customers in North Dakota.

2. The Settlement Agreement proposes that the revenue increase from the Settlement Agreement of $2,564,997 be allocated among the customer classes as follows:

Customer Class	Revenue Increase	
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	$2,564,997	1.96%

3. The Settlement Agreement's proposed revenue increase allocations to the customer classes was based upon a class cost of services study prepared by MDU with an adjustment proposed by Advocacy Staff. The study assigned 25 percent of distribution main investment and associated operation and maintenance expenses to the customer cost component with the remaining 75 percent assigned to the demand component. The Advocacy Staff proposed that 100 percent of such investment and expense be assigned to the demand cost component. This revision to MDU's class cost of service study results in increased rates of return under the existing rate structure from the Residential customer class and decreased returns from the Firm General, Small Interruptible, and Large Interruptible classes.

4. The revised class cost of service study showed the following returns among the customer classes before application of the revenue increase from the Settlement Agreement:

	ROR Without Increase
Residential	4.71%
Firm General Service	7.74%
Air Force	55.86%
Small Interruptible	3.37%
Large Interruptible	10.58%

5. The class cost of service study as performed by MDU and revised by staff is instructive as a useful guide when designing rates. It is understood that such studies can be performed in different ways, potentially reaching a variety of conclusions. 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 an appropriate rate design.

6. The Settlement Agreement's proposed revenue increase allocation among the customer classes would provide the following class rates of return based on the revised class cost of service study as compared to the overall rate of return of 7.34%:

	ROR With Increase
Residential	6.94%
Firm General Service	7.74%
Air Force	33.57%
Small Interruptible	5.87%
Large Interruptible	10.58%

The Settlement Agreement's proposed revenue allocation among the customer classes would result in an average monthly increase of $2.03 for a typical Residential customer using 94 dk on an annual basis.

7. The AARP, in its position statement on the Settlement Agreement, indicated its position that the revenue increase allocation to the residential class should be closer to the system average.

8. The Commission adopts the Settlement Agreement's proposed revenue class allocation because it better moves rates towards costs and does not result in any material rate shock or distribution inequities to customers.

9. The Settlement Agreement proposed to collect the entire amount of the distribution revenue increase assigned to the Residential class through a fixed Basic Service Charge of $0.6443 per day or approximately $19.60 per month. This increase in the Basic Service Charge would replace the Distribution Delivery Charge for residential customers of $0.326 per dk or $30.64 per year (average $2.55 per month) for an average Residential customer using 94 dk per year. This change would also eliminate the application of MDU's Distribution Delivery Stabilization Mechanism (Rate 87) to Residential customers, which adjusts rates for weather normalization.

10. In its position statement on the Settlement Agreement, AARP indicated the current Basic Service Charge for the Residential customer class should not be increased as AARP is opposed to a residential delivery rate that is comprised only of a single fixed Basic Service Charge. AARP prefers that any rate change for the residential customer class be applied through volumetric components to maintain a balance between fixed and variable rate components for gas delivery. AARP also argued that recovery of distribution costs solely through a fixed charge discourages conservation.

11. The recovery of all distribution or non-gas costs assigned to the Residential class through a fixed charge rate will not significantly discourage conservation. The cost of the gas commodity, which currently comprises approximately 71 percent of the average bill for a Residential customer, will continue to be recovered on a volumetric basis. Moreover, while conservation actually reduces commodity costs and therefore has a direct correlation to cost savings, it does not significantly reduce non-commodity distribution costs that must be recovered to provide safe and reliable service to both high and low usage customers.

12. The Benefits of recovering non-commodity costs through a fixed monthly charge for Residential customers are:

- Utility profits are decoupled from sales volumes, thus eliminating any disincentive for the utility to promote conservation among residential customers.
- Residential billing is simplified by removal of both the distribution delivery volumetric charge and the Distribution Delivery Stabilization Mechanism.

- Seasonal differences in utility revenues and customer bills are stabilized as winter gas bills are lessened while summer bills are increased.
- The impact of significantly colder-than-normal weather on customer bills is mitigated without requiring the application of the Distribution Delivery Stabilization Mechanism.
- Fluctuations in the utility's earnings as the result of weather fluctuations and customer conservation are mitigated,improving budgeting and planning.
- Revenues are better matched to the system design and investment required to serve each residential customer with a typical service line, meter and regulator at the same average cost.
- Inequities and cross subsidies between high usage and low usage customers are reduced, particularly with respect to customers using natural gas as a backup energy source during peak periods.
- Customers receive a proper price signal as distribution costs are predominantly fixed.
- Monthly utility charges are more transparent and less confusing.

13. A fixed monthly charge to recover all distribution costs has been implemented by another North Dakota gas utility with positive results.

14. The Commission adopts the Settlement Agreement's proposal to recover all non-gas Residential customer revenues through a fixed customer charge. Gradually implementing this rate design change as proposed by AARP will not realize the full value of the previously recited benefits. In particular, partial implementation would necessitate continuation of some measure of a volumetric charge for these non-gas revenues as well as continuation of the Distribution Delivery Stabilization Mechanism adjustment.

From the foregoing Findings of Fact, the Commission makes its:

Conclusions of Law

1. The Commission has jurisdiction in these proceedings.

2. The rates proposed by the Settlement Agreement are necessary to provide a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota.

3. The rates proposed by Settlement Agreement are designed to result in a basis of charge to customers that are just and reasonable without discrimination.

From the foregoing Findings of Fact and Conclusions of Law, the Commission makes its:

Order

The Commission orders:

1. The Settlement Agreement attached to this order is adopted in its entirety and made a part of this order.

2. This order constitutes an accounting order for the future rate and accounting treatment of MDU's pension and post-retirement account expenses, as provided in the Settlement Agreement.

3. MDU shall file, for Commission approval, compliance rate schedules consistent with this Order.

4. Within sixty (60) days of the Commission's approval of compliance rate schedules, 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 must be calculated in the manner provided in the Settlement Agreement.

PUBLIC SERVICE COMMISSION

Randy Christmann	Julie Fedorchak	Brian P. Kalk
Randy Christmann	**Julie Fedorchak**	**Brian P. Kalk**
Commissioner	**Chairman**	**Commissioner**