

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Montana-Dakota Utilities Co., a Division of MDU
Resources Group, Inc.
Renewable Resource Cost Recovery
Tariff and Rates**

Case No. PU-15-703

ORDER

January 5, 2016

On October 26, 2015, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (MDU) filed an application to implement a Renewable Resource Cost Recovery tariff, and filed rates for recovery under that tariff, for purposes of recovering its investment in renewable generation resources, specifically the Thunder Spirit Wind Project, a 107.5 MW generation project located near Hettinger, North Dakota.

On November 18, 2015, the Commission, suspended MDU's tariff filing and issued a Notice of Opportunity for Hearing, which provided until December 21, 2015 for receiving written comments and hearing requests. No response was received.

The notice identified the following issues to be considered:

1. Are the proposed costs reasonable?
2. Are the new rates designed in a just and reasonable manner?
3. Other relevant information or proposals concerning the proceeding.

On December 16, 2015, the Commission discussed the matter with Commission Advocacy staff and MDU during an informal hearing.

On December 22, 2015, MDU and Commission Advocacy Staff filed a Settlement Agreement.

The Commission previously granted MDU an Advance Determination of Prudence and a Certificate of Public Convenience and Necessity for the Thunder Spirit Wind Project in an Order issued June 30, 2015 in Case No. PU-14-843 and Case No. PU-14-844, respectively.

At the Informal Hearing on December 16, 2015, MDU explained that the Renewable Resource Cost Recovery tariff was proposed to recover the investments in renewable resources that have not previously been made a part of retail rates. MDU proposed that the Renewable Resource Cost Recovery adjustment is be recovered on a

kWh basis from each rate schedule, with the exception of contract accounts, and shown as a separate line item on the bill.

MDU initially proposed an annual North Dakota revenue increase of \$15,411,361 reflecting a 2016 annual revenue requirement for the Thunder Spirit Wind Project based on: (1) projected costs for calendar year 2016, (2) MDU's most recently-approved Return on Equity of 10.75%, and (3) MDU's current capital structure for an overall Return on Rate Base of 8.080 percent. The proposed rates were set to recover the projected return, operating and maintenance expenses, depreciation expense and taxes associated with the Thunder Spirit Wind Project for calendar year 2016.

MDU estimated that the increase would be offset by fuel savings of \$9,594,862 beginning January 1, 2016 that would be automatically reflected through reductions in the Fuel and Purchased Power Adjustment, resulting in a net increase to customers of approximately \$5.8 million.

Under the terms of the settlement, rates would be implemented on an interim basis effective January 1, 2016 to recover an annual revenue requirement of \$15,108,466 based on a Return on Equity of 10.5 percent and MDU's projected 2016 capital structure. MDU agrees to submit an electric rate case by September 30, 2016 at which time the Return on Equity to be applicable under the Renewable Resource Cost Recovery adjustment would be established on a final basis.

MDU and Advocacy Staff further agreed that any revenues received by MDU after 2015 and before a final order is issued by the Commission on the Company's next rate increase application that allow MDU to earn an annual return on equity on its North Dakota electric operations in excess of 10.5 percent would be refunded to North Dakota customers. All refunds under this provision would be implemented in accordance with a plan to be filed with and approved by the Commission.

Having considered this matter, the Commission finds MDU's proposed Renewable Resource Recovery tariff should be approved with rates effective on an interim basis in accordance with the attached Settlement Agreement. Therefore, the Commission issues the following:

Order

The Commission orders:

1. The Settlement Agreement, attached to this Order and made a part of this Order, is approved in its entirety.
2. MDU's application to implement a Renewable Resource Cost Recovery tariff consistent with the Settlement Agreement and this Order is APPROVED.


3. MDU's application to implement rates to recover renewable resource costs under the tariff consistent with the Settlement Agreement and this ORDER is APPROVED,

4. MDU shall submit compliance rate schedules consistent with this Order with rates to be effective for service rendered on or after January 7, 2016.

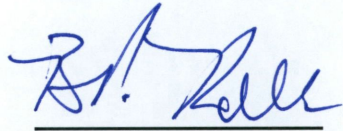
PUBLIC SERVICE COMMISSION



Randy Christmann
Commissioner



Julie Fedorchak
Chairman



Brian P. Kalk
Commissioner

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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 electric operations in North Dakota.

PROCEDURAL HISTORY

1. On October 26, 2015, Montana-Dakota filed an application ("Application") and notice to implement a Renewable Resource Recovery Rider tariff and rates for purposes of recovering its investment in renewable generation resources, specifically the Thunder Spirit Wind Project ("TSW"), a 107.5 MW generation project located near Hettinger, North Dakota. The Commission granted an Advance Determination of Prudence and a Certificate of Public Convenience and Necessity for the Thunder Spirit Wind Project in an Order issued on June 30, 2015 in Case Nos. PU-14-843 and PU-14-844. The Application proposed an annual North Dakota revenue increase amount of \$15,411,361 reflecting a 2016

annual revenue requirement for TSW ("TSW Revenue Requirement") based on: (1) projected costs for TSW for calendar year 2016, (2) the Company's most recent approved Return on Equity of 10.75%, and (3) the Company's current capital structure for an overall Return on Rate Base of 8.080 percent. The increase will be offset by estimated fuel savings of \$9,594,862 that will be begin on January 1, 2016 and automatically be reflected through reductions in the Fuel and Purchased Power Adjustment resulting in a net increase to customers of approximately \$5.8 million. Filed with the Application were revised tariffs and supporting statements. The Company proposed the revenue requirement be recovered from the customer classes as follows:

Customer Class	Revenue Increase Before Fuel Savings	Estimated Fuel Savings	Revenue Increase Net of Fuel Savings
Residential	\$6,868,207	\$3,819,046	\$3,049,161
Small General	954,561	759,622	194,939
Large General	7,440,596	4,883,754	2,556,842
Lighting	147,997	132,440	15,557
Total	\$15,411,361	\$9,594,862	\$5,816,499

2. On November 18, 2015, the Commission assessed a filing fee of \$10,000, suspended the tariff and proposed rates and issued a Notice of Opportunity for Hearing. As of the execution of this Settlement Agreement no party has requested a hearing in this matter.
3. Settlement discussions were held between the Settling Parties pursuant to the Commission's Settlement Guidelines dated January 4, 1995. As a result of those discussions, the Settling Parties reached this Settlement Agreement.
4. 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 Requirement. The Settling Parties agree to, and recommend the Commission approve, a North Dakota annual revenue increase amount of \$15,108,466 to be recovered through the Renewable Resource Cost Adjustment Rate 55 effective with service rendered on and after January 1, 2016. This revenue requirement reflects the 2016 revenue requirement for TSW calculated using a return on equity of 10.50 percent and a return on rate base of 7.952 percent.
2. Allocation of Revenue Requirement. The Settling Parties agree the TSW Revenue Requirement be allocated among the customer classes using the same allocation methodology and factors as were used to calculate the jurisdictional allocation of the generation resource costs among the states of Montana, North Dakota and South Dakota comprising the Company's electric integrated system. This allocator is based on a factor representing 80 percent energy and 20 percent capacity in recognition of the capacity benefit provided by the generation resource as accredited by MISO. The allocation is consistent, on a jurisdictional and class basis, with the allocation of the Company's existing wind generation assets included in retail rates (Diamond Willow and Cedar Hills). The resulting allocation of the revenue requirement among the rate classes is shown below:

Customer Class	Revenue Increase Before Fuel Savings	Estimated Fuel Savings	Revenue Increase Net of Fuel Savings
Residential	\$6,191,059	\$3,819,046	\$2,372,013
Small General	979,622	759,622	220,000
Large General	7,676,803	4,883,754	2,793,049
Lighting	260,982	132,440	128,542
Total	\$15,108,466	\$9,594,862	\$5,513,604

3. The Settling Parties agree the TSW revenue requirement shall be recovered as an adjustment per Kwh resulting in the following charges to be applicable under the Renewable Resource Cost Adjustment Rate 55 effective January 1, 2016.

Customer Class	Rider Adjustment Per Kwh
Residential	\$0.00712
Small General	\$0.00566
Large General	\$0.00690
Lighting	\$0.00865

4. Interim Adjustment. The Settling Parties agree the Renewable Resource Cost Adjustment shall be implemented on an interim basis pending the outcome of a general electric rate case to be filed by the Company no later than September 30, 2016. The Settling Parties contemplate continuation of the Renewable Resource Cost Adjustment after finalization of the rate case; however, the return on equity component of the TSW Revenue Requirement shall be subject to retroactive adjustment to January 1, 2016 based on the determination of an appropriate return on equity in the rate case. All refunds under this paragraph shall be implemented in accordance with a plan filed with and approved by the Commission.

5. Return on Equity Refunds. The Settling Parties agree that any revenues

received by Montana-Dakota after 2015 and before a final order is issued by the Commission on the Company's next rate increase application that allow it to earn an annual return on equity on its North Dakota electric operations in excess of 10.5 percent shall be refunded to its North Dakota customers. All refunds under this paragraph shall be implemented in accordance with a plan filed with and approved by the Commission.

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 January 1, 2016.

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 retail electric service rates. For these reasons, the Settling Parties urge the Commission to approve the Settlement Agreement.

Dated this 16th day of December, 2015.

MONTANA-DAKOTA UTILITIES CO.

By: Harriet Senger

Its: Executive Vice President –

Regulatory Affairs & CAO

Dated this 16th day of December, 2015.

NORTH DAKOTA PUBLIC SERVICE
ADVOCACY STAFF

By: 

Its: Special Assistant Attorney General