



400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

January 25, 2016

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

Re: Generation Resource Recovery
Tariff & Rates
Case No. PU-15-704

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc. herewith submits the original and seven (7) copies of a Settlement Agreement entered into on January 25, 2016 between Montana-Dakota and the Advocacy Staff of the North Dakota Public Service Commission.

Please acknowledge receipt by stamping or initiating the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

A handwritten signature in cursive script that reads 'Tamie A. Aberle'.

Tamie A. Aberle
Director of Regulatory Affairs

Attachment

cc: Karl Liepitz
Victor Schock
John Schuh

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Montana-Dakota Utilities Co., a Division
of MDU Resources Group, Inc.
Generation Resource Recovery Rider
Rates**

Case No. PU-15-704

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 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, 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 and notice to implement a change in rates under its Generation Resource Recovery Rider Rate 56. The changes proposed to the Resource Recovery Rider included a true-up to the Heskett III revenue requirement initially approved to be effective January 9, 2015 in Case No. PU14-109 and the addition of the Reciprocating Internal Combustion Engines (RICE) units co-located with the Lewis & Clark Generating Station. Montana-Dakota also requested two changes to the existing

Rate 56 (1) the allocation of the revenue requirement to the classes based on the AED Factor established in the Company's last general rate case and (2) the return component reflect the authorized return on equity from the Company's last general rate case in order to incorporate changes in the Company's projected capital structure and reflect the lower cost of debt, while setting the return for its shareholders at the return on equity authorized in the Company's last general rate case. The Application proposed to update the GRRR rates to reflect both the actual project costs and expenditures incurred through July 2015 for Heskett III and the projected capital costs and expenditures through December 2016 for Heskett III and the Reciprocating Internal Combustion Engines (RICE) units at the Company's Lewis & Clark Generating Station. The amount to be recovered on an annual basis included \$4,978,797 for Heskett III representing a decrease of \$291,211 from annual revenues currently recovered for Heskett III and the revenue requirement for the RICE units of \$4,882,561 for a total amount of \$9,861,358 to be recovered through the GRRR. The Company proposed the revenue requirement be recovered from the customer classes as follows:

Customer Class	2016 Revenue Requirement	Current GRRR Revenues	Increase
Residential	\$4,437,413	\$2,366,425	\$2,070,988
Small General	616,723	378,981	237,742
Large General	4,807,222	2,524,602	2,282,620
Total	\$9,861,358	\$5,270,008	\$4,591,350

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. On December 16, 2015 pursuant to its own Motion, the Commission

issued a Notice of Hearing for February 4, 2016.

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 revenue requirement of \$9,669,944 to be recovered through the Generation Resource Recovery Adjustment Rate 56 effective on an interim basis, with service rendered on and after February 10, 2016. This revenue requirement is based upon 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 that the Generation Resource Recovery Rider be allocated among the classes based on the Average and Excess Demand Allocator (AED) Allocator used in the last rate case. The resulting allocation among the rate classes is shown below:

Customer Class	2016 Revenue Requirement	Current GRRR Revenues	Increase
Residential	\$4,351,281	\$2,366,425	\$1,984,856
Small General	604,752	378,981	225,771
Large General	4,713,911	2,524,602	2,189,309
Total	\$9,669,944	\$5,270,008	\$4,399,936

3. The Settling Parties agree the Generation Resource Recovery Rider revenue

requirement shall be recovered on a per unit basis, as shown below, to be applicable on an interim basis effective February 10, 2016.

Customer Class	Rider Adjustment
Residential	\$0.00500 per Kwh
Small General	\$0.00349 per Kwh
Large General	\$1.44 per Kw

4. Interim Adjustment. The Settling Parties agree the Generation Resource Recovery Rider 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 the elimination of the Generation Resource Recovery Rider after finalization of the rate case. At that time the net investment authorized in the rate case for the Heskett III and RICE units will be rolled into rate base and recovered through base retail rates. The return on equity component of the Generation Resource Recovery Rider and the final investment in the RICE units as allocated to North Dakota shall be subject to retroactive adjustment to the date interim rates are implemented based on the final determination of an appropriate return on equity and the net investment authorized in the rate case for the RICE units. 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 15, 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 electric service rates. For these reasons, the Settling Parties urge the Commission to approve the Settlement Agreement.

Dated this _____th day of January, 2016.

MONTANA-DAKOTA UTILITIES CO.

By: Yanet Songer

Its: Executive Vice President –

Regulatory Affairs & CAO

Dated this 25th day of January, 2016.

NORTH DAKOTA PUBLIC SERVICE
ADVOCACY STAFF

By: 

Its: Special Assistant Attorney General