

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

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

Case No. PU-15-704

ORDER APPROVING SETTLEMENT

March 9, 2016

Appearances

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

Karl A. Liepitz, Senior Attorney, 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.

Ilona 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 Advisory Staff.

Patrick J. Ward, Zuger Kirmis & Smith, P.O. Box 1695, Bismarck, ND 58502-1695, appearing as Administrative Law Judge.

Preliminary Statement

On October 26, 2015, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (Montana-Dakota) filed an application to implement a change in rates under its Generation Resource Recovery Rider Rate 56 (GRRR). The changes proposed to the GRRR include a true-up to the Heskett III revenue requirement initially approved to be effective January 9, 2015 in Case No. PU-14-109 and the addition of the Reciprocating Internal Combustion Engines (RICE) units co-located with the Lewis & Clark Generating Station. The application requested revisions to the GRRR tariff to allocate revenue requirements to the customer classes based on the average and excess demand allocation factor and to reflect the authorized return on equity, both as established in Montana-Dakota's last electric general rate case.

On November 18, 2015, the Public Service Commission (Commission) issued a Notice of Opportunity for Hearing.

On December 16, 2015, the Commission issued a Notice of Hearing for February 4, 2016. The notice specified the issue to be considered regarding the proposed change to the GRRR is whether the change is just and reasonable. The notice specified the issues to be considered regarding Heskett III and the RICE units as:

1. What is the value of Montana-Dakota's property, used and useful, for the service and convenience of the public in North Dakota?
2. What is Montana-Dakota's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?
3. What is a just and reasonable rate of return on Montana-Dakota's property, used and useful, for the service and convenience of the public in North Dakota?
4. What rates and charges are necessary to provide a just and reasonable rate of return on Montana-Dakota's property, used and useful, for the service and convenience of the public in North Dakota?
5. Are Montana-Dakota's proposed rate schedules designed in such a manner that they result in a basis of change to its customers that is just and reasonable without discrimination?
6. Other relevant information or proposals concerning the proceeding.

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

On January 25, 2016, Montana-Dakota and Commission Advocacy Staff (Advocacy Staff) filed a Settlement Agreement that they stated would resolve all the issues in this proceeding including expense, revenue, return, and rate design on an interim basis, pending the outcome of a general electric rate case to be filed by Montana-Dakota no later than September 30, 2016.

On February 12, 2016, Montana-Dakota and Advocacy Staff filed a revised Settlement Agreement clarifying Section 4 of the Settlement Agreement and asking that the new document be made an exhibit.

The amended Settlement Agreement provides a revenue requirement of \$9,669,944 based upon a return on equity of 10.50 percent and a return on rate base of 7.952 percent to be recovered through the GRRR on an interim basis pending the outcome of a general electric rate case to be filed by Montana-Dakota no later than September 30, 2016. The GRRR would be allocated among customer classes based

on an Average and Excess Demand Allocator as described in the Settlement Agreement.

The amended Settlement Agreement further provides that any revenues received after 2015 and before a final order on MDU's next rate increase application that allow an annual return on equity on its North Dakota electric operations in excess of 10.5 percent shall be refunded to North Dakota customers.

The changes in tariff and rates proposed on an interim basis by the amended Settlement Agreement are reasonable pending the outcome of the agreed upon general electric rate case to be filed by Montana-Dakota.

Order

The Commission Orders:

1. The Settlement Agreement filed February 12, 2016 is made Exhibit MDU 4.
2. The Settlement Agreement filed February 12, 2016, attached to and made a part of this Order, is approved.
3. Montana-Dakota's application to update its Generation Resource Recovery Rider Rate 56 is approved consistent with the Settlement Agreement and this Order.
4. The Generation Resource Recovery Rider Rate 56 interim rates are effective as of the date of this Order.


PUBLIC SERVICE COMMISSION



Randy Christmann
Commissioner



Julie Fedorchak
Chairman



Brian P. Kalk
Commissioner



UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

February 12, 2016

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505-0480

Re: Case No. PU-15-704
Electric Generation Resource Recovery
Rider Rates
Late Filed Exhibit No. 1

Montana-Dakota Utilities Co. (Montana-Dakota) and Commission Advocacy Staff herewith submit an amended Settlement Agreement in this Case. The amended Settlement Agreement reflects revisions to Paragraph 4. Interim Adjustment under the Terms of the Settlement Agreement in order to address questions raised by the Commission Advisory Staff regarding the reference to a retroactive adjustment in rates under the Settlement Agreement submitted on January 25, 2016.

The amendment to Paragraph 4, in the attached Settlement Agreement, clarifies specifically what amounts are subject to adjustment under the interim provisions of the Settlement Agreement and further clarifies that a retroactive adjustment shall only be applicable to the extent amounts recovered by Montana-Dakota on an interim basis pursuant to the Generation Resource Recovery Rider exceed the amount that would have been recovered based on the return on equity and RICE unit investment ultimately authorized in the general electric rate case to be filed by September 30, 2016.

The Parties have submitted this amended Settlement Agreement as a late filed exhibit in lieu of the request to provide support for a retroactive adjustment that would result in rates to customers higher than what was collected on an interim basis. The amended Settlement Agreement clarifies the position of the parties in regard to this matter.

A handwritten signature in red ink that reads 'Tamie Aberle'.

Tamie Aberle
Director of Regulatory Affairs

Attachment

cc: Service List

Case No. PU-15-704
Electronic Service List

Tamie Aberle

tamie.aberle@mdu.com

Karl Liepitz

karl.liepitz@mduresources.com

Paul Sanderson

psanderson@esattorneys.com

John Schuh

jschuh@nd.gov

Illona Jeffcoat-Sacco

ijs@nd.gov

Victor Schock

vschock@nd.gov

Wade Mann

wmann@nd.gov

Louise Wetzel

lmwetz@nd.gov

**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.

<u>Customer Class</u>	<u>Rider Adjustment</u>
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 expect the Generation Resource Recovery Rider rates will go to zero after finalization of the rate case, provided that at such time the net investment for the Heskett III and RICE units are rolled into rate base and recovered through base retail rates. The return on equity component applicable to both the Heskett III and the RICE units under 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 Generation Resource Recovery Rider 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. The foregoing retroactive adjustment shall only be applicable to the extent amounts recovered by the Company on an interim basis pursuant to the Generation Resource Recovery Rider exceed the amount that would have been recovered based on the return on equity and RICE unit investment ultimately authorized in the

general electric rate case referenced herein. 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 11th day of February, 2016.

MONTANA-DAKOTA UTILITIES CO.

By: Paul Dougan

Its: Executive Vice President –
Regulatory Affairs & CAO

Dated this 12th day of February, 2016.

NORTH DAKOTA PUBLIC SERVICE
ADVOCACY STAFF

By: [Signature]

Its: Special Assistant Attorney General