

STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
MONTANA-DAKOTA UTILITIES )  
CO., a Division of MDU Resources ) Case No. PU-16-666  
Group, Inc., for Authority to )  
Establish Increased Rates for )  
Electric Service )

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"), the Advocacy Staff of the North Dakota Public Service Commission ("Advocacy Staff"), and Intervenor AARP (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 between the Settling Parties in a manner consistent with the public interest and will result in just and reasonable rates for the Company's electric service in North Dakota.

**PROCEDURAL HISTORY**

1. On October 14, 2016, Montana-Dakota filed an application and notice to increase its North Dakota electric service rates based on a 2017 test year. The Application proposed an increase in electric rates to provide additional annual revenue of \$13,381,639, or an overall increase in projected annual retail revenues of 6.6 percent, at current rates as of the filing date. Filed with the Application were revised tariffs, direct testimony, exhibits and supporting statements. The Company proposed the requested increase be divided among the customer classes as follows:

<u>Customer Class</u>	<u>Percent Increase</u>
Residential	9.4%
Small General	10.9%
Large General	4.0%
Municipal Lighting	1.1%
Municipal Pumping	9.7%
Outdoor Lighting	1.6%
Total	<u>6.6%</u>

2. Montana-Dakota concurrently submitted an Application and Notice for an interim increase in electric rates in the annual amount of \$13,027,771 to be effective within 60 days from filing.

3. The Commission suspended Montana-Dakota's general rate increase application by motion on November 2, 2016.

4. On November 30, 2016, the Commission issued an Order approving an interim rate increase of \$11,695,592 to become effective for service rendered on or after December 13, 2016.

5. On November 30, 2016, the Commission issued a Notice of Intervention Deadline, Notice of Public Input Sessions and Notice of Hearing, scheduling public input sessions for January 23, 2017, and January 25, 2017, and scheduling the formal hearing for April 10, 2017. The Notice of Hearing also encouraged anyone interested in becoming a party to the proceeding to file a petition to intervene by January 27, 2017. The public input sessions were held as scheduled.

6. A Petition to Intervene was filed by the AARP. On February 3, 2017, the Administrative Law Judge granted the petition to intervene of AARP.

7. Settlement discussions were held between the Settling Parties pursuant to the Commission's Settlement Guidelines dated January 4, 1995. As a result of multiple

settlement discussions, the Settling Parties reached this Settlement Agreement.

8. 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. Overall Revenue Increase. The Parties agree to, and recommend the Commission approve, a net increase in Montana-Dakota's electric rates for retail customers in North Dakota to yield an annual revenue increase of \$7.5 million effective upon a final order in this proceeding. This represents an overall increase in rates of 3.7%. The change between the Company's Application and the amount agreed to herein is attributable to the following adjustments:

	(Million \$'s)
Company's Application as Filed	\$13.4
Update for 2016 Actual Results	(1.1)
ROE at 9.65%	(2.0)
Decommissioning	(1.4)
Incentive Plan Costs	(0.5)
Other Capital and O&M	(0.9)
Net Revenue Increase	<u>\$7.5</u>

2. Return on Equity. The Parties agree to, and recommend the Commission approve, a return on equity of 9.65 percent effective upon a final order in this proceeding resulting in an overall rate of return of 7.364 percent based on the following capital structure:

	<u>Ratio</u>	<u>Cost</u>	<u>Return</u>
Long Term Debt	42.673%	5.245%	2.238%
Short Term Debt	4.840%	2.402%	0.116%
Preferred Stock	1.084%	4.579%	0.050%
Common Equity	51.403%	9.650%	4.960%
Total	<u>100.000%</u>		<u>7.364%</u>

3. Generation, Transmission, and Renewable Rider True-Up Adjustments.

The Settling Parties agree that the true-up adjustments applicable under the Generation, Transmission, and Renewable Riders approved on an interim basis in Case Nos. PU-15-703, PU-15-747 and PU-15-704 respectively will be calculated based on a return on equity of 9.45 percent or an overall rate of return of 7.262 percent based on the following capital structure.

	<u>Ratio</u>	<u>Cost</u>	<u>Return</u>
Long Term Debt	42.673%	5.245%	2.238%
Short Term Debt	4.840%	2.402%	0.116%
Preferred Stock	1.084%	4.579%	0.050%
Common Equity	51.403%	9.450%	4.858%
Total	<u>100.000%</u>		<u>7.262%</u>

4. Generation Rider. The Settling Parties agree that the Lewis and Clark RICE Units that are currently in the Company's generation rider will continue to be recovered through the Generation Rider and the Heskett III generator will be rolled in to base retail rates at this time. The overall return on rate base identified in Paragraph 3 shall be applicable under the Generation Rider until December 31, 2019. As of January 1, 2020, the Generation Rider recovering the Lewis and Clark RICE Units will be subject to the Company's overall return on rate base in effect on that date. The Lewis and Clark RICE Units will be rolled into retail rate base in the Company's first rate case after December 31, 2019, at the then depreciated value.

5. Renewable Rider. The Settling Parties agree that all existing wind facilities (Cedar Hills, Diamond Willow and Thunder Spirit) will be recovered through the Renewable Rider Rate 55.

6. Transmission Rider. The Settling Parties agree that the transmission assets currently recovered through the Transmission Rider will be moved to base retail rates and the Transmission Rider will continue to recover the regional transmission related expenses as submitted in the Application.

7. Environmental Rider. The Settling Parties agree that the Big Stone Air Quality Control Systems project and the Lewis & Clark Mercury and Air Toxics Standard project will be moved to base retail rates.

8. Decommissioning Expense. The Settling Parties agree that future decommissioning costs associated with costs incurred to decommission the Company's production facilities upon retirement shall be initiated in this case at an annual amount of \$500,000 with the annual amount collected recorded as a reduction to rate base.

9. Revenue Allocation. The Settling Parties agree to the following allocation of revenues resulting in an increase by rate class as described below.

<u>Customer Class</u>	<u>\$</u>	<u>%</u>
Residential Service	\$4,114,698	5.2%
Small General Service	914,489	6.8%
General Service	2,295,884	2.2%
Municipal Lighting	2,751	0.2%
Municipal Pumping	164,815	5.5%
Outdoor Lighting Service	7,475	1.0%
Total North Dakota Electric	<u>\$7,500,112</u>	<u>3.7%</u>

A residential customer using 980 Kwh with a \$0.46 daily basic service charge will see an increase of \$4.50 per month on average.

10. Contract Discount Rates. The Company agrees that it will provide an update to the Commission regarding each contract reflecting a discounted rate by September 30, 2017.

11. Compliance Tariffs. The Company shall file compliance tariffs reflecting the revenue requirement provisions and the revenue allocation denoted in Paragraph 9 of this Settlement Agreement, including the following revisions to tariffs upon issuance of an Order:

- The Company agrees to keep the current language on its Firm Service Economic Development Rate 34 that allows the Commission to review agreements under this tariff.

- The "Time and Manner of the Filing" section on each of the rider schedules shall be eliminated and the Company agrees to file its annual rider updates such that the Commission has a 90-day review period.

- The Company agrees not to institute Off-Peak Demand Charges in this case. The Basic Service Charges and Demand Charges as proposed by the Company, with the exception of the Residential Basic Service Charge described in Paragraph 12, are agreed to by the Settling Parties except that the Basic Service Charges for any of the non-residential tariff schedules shall not be less than currently authorized Basic Service Charge amounts.

- The Company agrees to revise its Employee Discount tariff language in Rate Schedule 100 to more clearly describe that the discounts on

electric billings only apply to retirees that retired on or before December 31, 2009.

- The Settling Parties agree to all other tariff provision changes (notwithstanding specific charges) as proposed by the Company.

12. Residential Basic Service Charge. The Settling Parties agree the Residential Daily Basic Service Charge will be increased to \$0.46 per day.

13. Consumer Deposit Information. The Company agrees to develop a communication plan regarding consumer deposit information, in conjunction with Commission Staff, to be presented on the Company's website.

14. Monthly Fuel Cost Adjustments. The Company agrees to calculate its total Fuel and Purchased Power costs monthly versus having the charge as two parts with one being in base rates and the remaining part being the monthly adjustment that in the past has been shown on Rate 58. This eliminates the need to show a "Base Fuel and Purchased Power" rate on each rate schedule. The Company further agrees to eliminate the monthly tariff sheets that the Company has been filing and provide a table on the Company's website where the monthly fuel cost adjustments are easy for customers to find. The Company agrees to consult with Commission Staff for proper placement of the table on the Company's website.

15. Load Research Studies. The Company agrees to utilize a stratified random sampling technique for selecting samples and the use of a ratio estimation technique to expand the sample data into class demand estimates for future class cost of service study purposes.

#### **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. This 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, nor any principle or precedent regarding rate design methodology.

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. Interim Rate Refund. Since the base rate increase is less than the current interim increase collected from customers a refund will be due to customers. A refund plan will be submitted within 30 days of an entry of an Order in this case.

D. 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.

E. Effective Date. This Settlement Agreement shall be effective on the date of the Commission Order approving the Settlement Agreement. The revised rates and

tariffs agreed to by this Settlement Agreement shall be effective on the dates specified herein.

F. Modification. If the Commission's 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.

G. Suspension. On November 3, 2016, the Commission approved a motion to suspend the rates filed in this case. The Settling Parties agree to suspend the rate, classification, contract, practice, or rule beyond the time it would otherwise go into effect, and beyond six months, pursuant to N.D.C.C. § 49-05-06 while the Commission considers this matter. Further, if the Commission's order modifies or declines this Settlement, the Settling Parties agree to extend the suspension until such time as these proceedings are concluded.

### 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 rates. For these reasons, the Settling Parties urge the Commission to approve the Settlement Agreement.

Dated this 7<sup>th</sup> day of April, 2017.

**MONTANA-DAKOTA UTILITIES CO.**

By: Garret Senger

Its: **Garret Senger  
EVP - Regulatory Affairs,  
Customer Service, Gas Supply**

Dated this \_\_\_\_\_ day of April, 2017.

**NORTH DAKOTA PUBLIC SERVICE  
ADVOCACY STAFF**

By: \_\_\_\_\_

Its:

Dated this \_\_\_\_\_ day of April, 2017.

**AARP**

By: \_\_\_\_\_

Its:

Dated this \_\_\_\_\_ day of April, 2017.

**MONTANA-DAKOTA UTILITIES CO.**

By: \_\_\_\_\_

Its:

Dated this 7<sup>th</sup> day of April, 2017.

**NORTH DAKOTA PUBLIC SERVICE  
ADVOCACY STAFF**

By: *Michelle S. Armstrong*

Its: *Attorney*

Dated this \_\_\_\_\_ day of April, 2017.

**AARP**

By: \_\_\_\_\_

Its:

Dated this \_\_\_\_\_ day of April, 2017.

**MONTANA-DAKOTA UTILITIES CO.**

By: \_\_\_\_\_

Its:

Dated this \_\_\_\_\_ day of April, 2017.

**NORTH DAKOTA PUBLIC SERVICE  
ADVOCACY STAFF**

By: \_\_\_\_\_

Its:

Dated this 7<sup>th</sup> day of April, 2017.

**AARP**

By: John B Coffman

Its: Attorney