

*In the Community to Serve®*

# North Dakota Electric Rate Case Hearing

## Case No. PU-16-666

## Nicole Kivisto Overview



# MDU RESOURCES GROUP, INC.

NYSE: MDU

REGULATED BY  
FEDERAL AND STATE  
COMMISSIONS



NON-REGULATED



REGULATED BY  
FEDERAL AND STATE  
COMMISSIONS



NON-REGULATED



## **MONTANA-DAKOTA UTILITIES CO. ELECTRIC SERVICE IN NORTH DAKOTA**

- 100,687 customers (80,000 residential)
- 117 communities served
- Region offices in Bismarck and Dickinson and district offices located throughout service area
- 567 employees
- Fully integrated utility service
  - Generation
  - Transmission
  - Distribution

# Application for Increase in Electric Service Rates

- Application filed October 14, 2016
- Increase of \$13.4 Million - 6.6% Overall
- Overall Rate of Return of 7.459%
- Last general rate case filed in 2010 with rates effective July 2011
- Interim rate increase of \$11.7 million or 5.8% effective December 13, 2016 (subject to refund)
- Updated with 2016 Actuals
  - Reduced Increase to \$12.2 million
  - 6% Overall

## WHY THE NEED FOR A RATE INCREASE?

- Obligation to Provide Safe & Reliable Service
  - Increased investment in facilities
  - Higher depreciation expense & operation and maintenance expenses
  - Decommissioning expense
  - Higher property tax
- Investments beyond what is currently recovered through rate riders

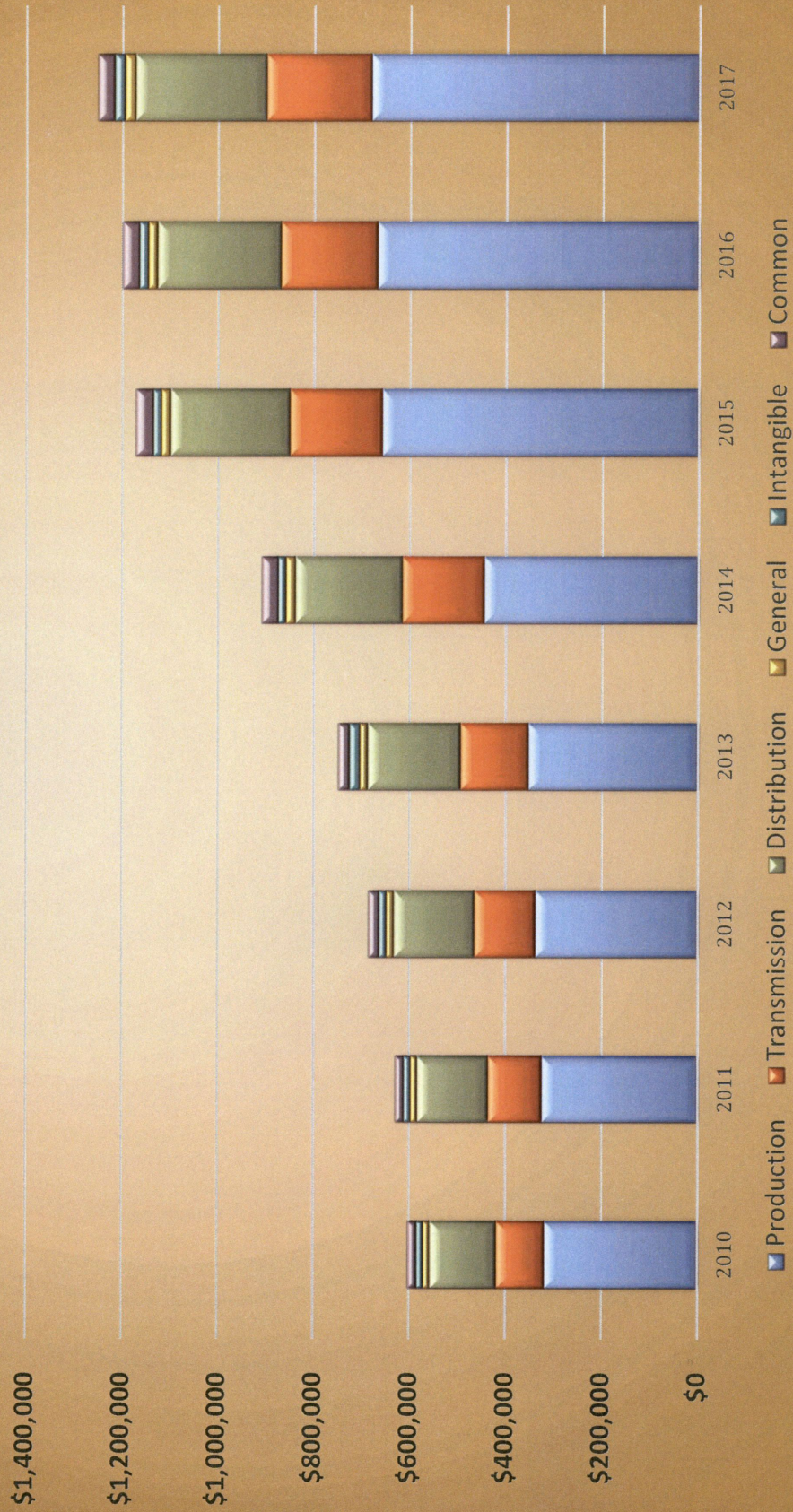
## BAKKEN IMPACTS

- Increase in Bakken Production impacted the majority of Montana-Dakota's System
  - Customer and demand increases not associated with serving oil production facilities
  - Increases associated with serving residential & commercial loads within the communities
  - Montana-Dakota served approximately 10% of load growth in the west
- Employee turnover and employee additions were among the challenges the Company faced
- Construction wages were increasing 10% - 15% annually
- One bedroom apartments, if available, were demanding \$2,000 - \$3,000 per month

## BAKKEN IMPACTS (CON'T)

- Population approximately doubled in several communities
- Peak demand doubled in the Western Region
- Customer increases throughout the service area
- Basin Electric's load growth had a substantial impact on Montana-Dakota because we are transmission dependent upon Basin & WAPA in the Western Region
- Without a capacity addition in the Western Region - Montana-Dakota's firm service customers were facing electric interruptions starting in the Winter of 2015
- RICE project determined to be the only option

# North Dakota Electric Plant 2010 - Projected 2017 (in 000s)



# NORTH DAKOTA ELECTRIC INVESTMENT



|               |              |   |
|---------------|--------------|---|
| \$362 million | Production   | Environmental compliance; low cost energy to displace purchases; meet growing capacity requirements |
| \$119 million | Transmission | Reliability, bulk power, and storm damage   |
| \$136 million | Distribution | Substation replacements, upgrades, and automation   |
| \$ 32 million | Other        | Work equipment, Williston/Watford City offices & technology   |

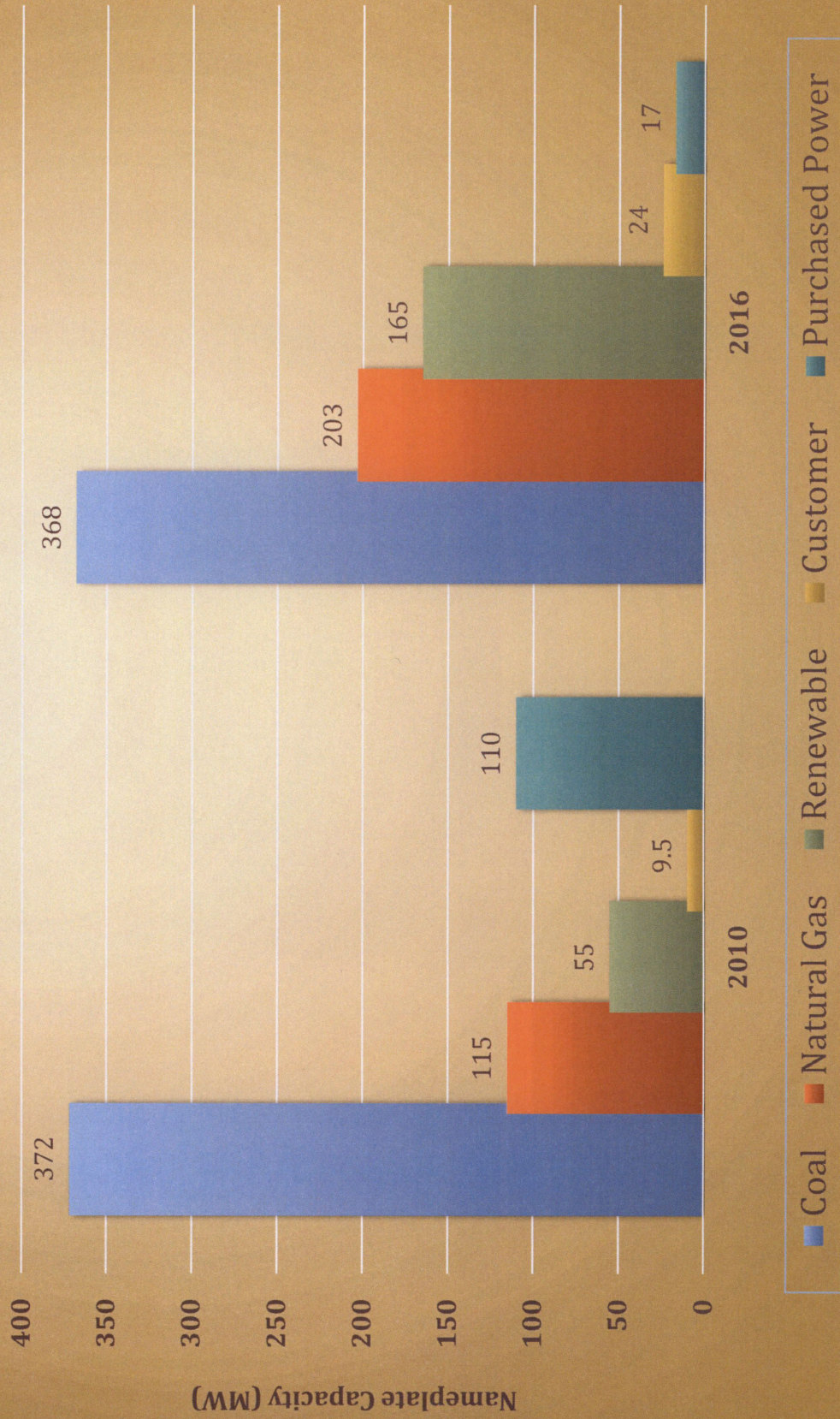
\$280 million or 44% of the increased investment recovered through Riders

# PRODUCTION PLANT INVESTMENT

Increase in production assets primarily driven by need to comply with Federal and State environmental rules and to meet the energy and capacity needs of customers

- Heskett III Gas Turbine - Demand & Reliability
- Lewis & Clark Reciprocating Internal Combustion Engine (RICE) - Demand & Reliability
- Lewis & Clark Mercury Air Toxic Standards Project (MATS) - Environmental
- Big Stone Air Quality Control System (AQCS) - Environmental
- Thunder Spirit Wind - Energy

# Montana-Dakota's Capacity by Generation Resource Type



# TRANSMISSION & DISTRIBUTION PLANT INVESTMENT

- Increased capacity required to serve customers
- System upgrades due to age
- Storm damage replacements
- Reliability enhancements

## **RATE RIDERS**

### **Transmission Cost Adjustment (TCA) Rate 59**

- Transmission expenses assessed by regional transmission organizations - MISO and Southwest Power Pool & Investment in two large transmission projects
- Proposed to continue but move transmission investment to base rates

### **Renewable Resource Cost Adjustment Rate 55**

- Investment in Thunder Spirit wind facility
- Proposed to continue and include other wind facilities

## **RATE RIDERS** CON'T

### **Generation Resource Recovery Rider Rate 56**

- Investment in Heskett III & RICE generation resource additions
- Proposed to move into base rates

### **Environmental Cost Recovery Rider Rate 57**

- Investment in Big Stone Plant Air Quality Control System and Lewis & Clark Mercury & Air Toxics Standards project
- Proposed to move into base rates

## SETTLEMENT AGREEMENT FILED 4/7/17

- Increase of \$13.4 million reduced to \$7.5 million

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

- 3.7% Overall Increase in Rates
- 9.65% Return on Equity (ROE)
- Riders with an interim ROE (Generation, Transmission & Renewable) will be trued-up based on a 9.45% ROE
- Lewis & Clark Rice Unit will remain in Generation Rider with ROE held at 9.45% through December 31, 2019
- Balance in the Generation Rider will be rolled into retail rates in the first rate case to be effective after 12/31/19

**SETTLEMENT AGREEMENT  
FILED 4/7/17**

- All wind facilities will move into the Renewable Rider as proposed
- The Transmission Rider will be adjusted as proposed
- Compliance tariffs will include modifications supported by Staff as outlined in the Settlement Agreement
- Company will work with Staff in regard to presentation changes to the Fuel Cost Adjustment & Deposit Information
- Company will review and report to the Commission regarding current contract rates by 9/30/17
- An Interim Refund Plan will be submitted for approval

# NET REVENUE INCREASE

- Proposed Increase by Rate Class

| <u>Customer Class</u>       | <u>Initial</u> | <u>Settlement</u> |
|-----------------------------|----------------|-------------------|
| Residential Service         | 9.4%           | 5.2%              |
| Small General Service       | 10.9%          | 6.8%              |
| General Service             | 4.0%           | 2.2%              |
| Municipal Lighting          | 1.1%           | 0.2%              |
| Municipal Pumping           | 9.7%           | 5.5%              |
| Outdoor Lighting Service    | 1.6%           | 1.0%              |
| Total North Dakota Electric | <u>6.6%</u>    | <u>3.7%</u>       |

- Residential Basic Service Charge set at \$0.46 per day
- Residential customer using 980 Kwh= \$4.50 per month increase



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