

**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)**

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

April _____, 2017

Appearances

Commissioners Randy Christmann, Julie Fedorchak, and Brian Kroshus.

Karl Liepitz, Assistant General Counsel, 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, and Mitch Armstrong, Special Assistant Attorney General, 122 E. Broadway Ave., Bismarck, ND 58501, appearing on behalf of Public Service Commission Advocacy Staff.

John B. Coffman, John B. Coffman, LLC, 871 Tuxedo Blvd., St. Louis, MO 63119-2044, and David Tschider, Tschider & Smith, 418 E. Rosser Ave., Ste. 200, Bismarck, ND 58501, appearing on behalf of AARP.

Illona 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 Ward, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street, Suite 303, Bismarck, North Dakota 58503 as Procedural Hearing Officer.

Preliminary Statement

On October 14, 2016, Montana-Dakota Utilities Co. (“Montana-Dakota” or “Company”) filed an application and notice to increase its North Dakota electric service rates based on a 2017 test year (the “Application”). 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.

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.

On November 2, 2016, the Public Service Commission (“Commission”) suspended Montana-Dakota’s general rate increase application by motion.

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.

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.

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

On April 7, 2017, Montana-Dakota, Commission Advocacy Staff (“Advocacy Staff”), and AARP entered into a Settlement Agreement that would resolve all the issues in this proceeding. A copy of the Settlement Agreement is attached as Exhibit No. 1. The Settlement Agreement provides for implementation of a net increase in electric rates for retail customers in North Dakota to yield a net annual revenue increase of \$7.5 million, or approximately 3.7%, effective upon a final order in this proceeding. This revenue increase is based upon a return on equity of 9.65 percent and a return on rate base of 7.364 percent for retail rates and all riders except for the Generation Rider that will continue at least through December 31, 2019 that will be established based on a return on equity of 9.45 percent. The parties agreed that the true-up adjustments applicable under the Generation, Transmission, and Renewable Riders approved on an interim basis will be calculated based on a return on equity of 9.45 percent or an overall rate of return of 7.262 percent.

The Commission held the public hearing, as scheduled on April 10, 2017 in the Commission Hearing Room, State Capitol, 600 E. Boulevard Avenue, 12th Floor, Bismarck, North Dakota 58505.

Having allowed all interested persons an opportunity to be heard, and having heard, reviewed and considered all testimony and evidence presented, the Commission makes the following:

Findings of Fact

1. Montana-Dakota is a Division of MDU Resources Group, Inc., a Delaware corporation, duly authorized to provide electric service to retail customers in North Dakota.

2. The Settlement Agreement proposes 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.

3. The Settlement Agreement proposes 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	<u>51.403%</u>	<u>9.650%</u>	<u>4.960%</u>
Total	<u>100.000%</u>		<u>7.364%</u>

4. The Settlement Agreement proposes 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	<u>51.403%</u>	<u>9.450%</u>	<u>4.858%</u>
Total	<u>100.000%</u>		<u>7.262%</u>

5. The Settlement Agreement proposes 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 4 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. Should any generating units be placed into the generator rider other than the RICE units, shall be subject to the overall authorized rate of return at that time.

6. The Settlement Agreement proposes all existing wind facilities (Cedar Hills, Diamond Willow and Thunder Spirit) will be recovered through the Renewable Rider Rate 55.

7. The Settlement Agreement proposes 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 types of regional transmission related expenses as submitted in the Application.

8. The Settlement Agreement proposes 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.

9. The Settlement Agreement proposes 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.

10. The Settlement Agreement proposes the following allocation of revenues resulting in an increase by rate class as described below.

Customer Class	\$	%
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	\$7,500,112	3.7%

11. The Settlement Agreement proposes that Montana-Dakota will provide an update to the Commission regarding each contract reflecting a discounted rate by September 30, 2017.

12. The Settlement Agreement proposes Montana-Dakota shall file compliance tariffs reflecting the revenue requirement provisions and the revenue allocation denoted

in Paragraph 9 of the 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 13, are agreed to by the parties to the Settlement Agreement 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 parties to the Settlement Agreement agree to all other tariff provision changes (notwithstanding specific charges) as proposed by the Company.

13. The Settlement Agreement proposes the Residential Daily Basic Service Charge will be increased to \$0.46 per day.

14. The Settlement Agreement proposes Montana-Dakota will develop a communication plan regarding consumer deposit information, in conjunction with Commission Staff, to be presented on the Company’s website.

15. The Settlement Agreement proposes Montana-Dakota will 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.

16. The Settlement Agreement proposes Montana-Dakota will 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.

17. Since the net rate increase is less than the current interim increase collected from customers a refund will be due to customers. Montana-Dakota will submit a refund plan within 30 days of entry of the Order in this case.

From the foregoing Findings of Fact, the Commission makes the following:

Conclusions of Law

1. The Commission has jurisdiction in these proceedings.
2. The rates proposed by the Settlement Agreement 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.
3. The rates proposed by Settlement Agreement are designed to result in a basis of charge to customers that are just and reasonable without discrimination.

From the foregoing Findings of Fact and Conclusions of Law, the Commission makes the following:

Order

The Commission Orders:

1. The Settlement Agreement, attached to this Order and made a part of this Order, is adopted and approved in its entirety.
2. Except as specifically modified by this Order, the Application of Montana-Dakota to increase its North Dakota electric service rates is adopted and approved in its entirety.
3. Montana-Dakota shall file, for Commission approval, compliance rate schedules consistent with this Order.
4. Within ninety (90) days of the Commission's approval of refund plan, Montana-Dakota shall issue refunds to customers to reflect the difference in annual revenues collected under the interim increase and the effective date of the compliance rates approved by the Commission. The refunds shall be calculated in the manner provided in the Settlement Agreement.

PUBLIC SERVICE COMMISSION

Brian Kroshus
Commissioner

Randy Christmann
Chairman

Julie Fedorchak
Commissioner