



UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

May 15, 2017

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

Re: Case No. PU-16-666

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. ("Montana-Dakota" or the "Company") herewith submits responses to the Commission's information requests dated April 19, 2017 regarding the Settlement Agreement submitted in Montana-Dakota's electric rate case in the above referenced case. The Company, Advocacy Staff of the North Dakota Public Service Commission, and intervenor AARP are all parties to a settlement agreement (the "Settlement") that resolves all outstanding issues in the case.

To assist the Commission in its consideration of the Settlement below is a brief summary of how the Settlement impacts rates, the Company's net revenue requirement, and the applicable interim rate refund calculation.

Summary

The Settlement results in an annual net revenue increase of \$7.5 million, which compares to authorized interim revenue of \$11.7 million. This results in 18.9395 percent of the amount collected from each customer during the applicable interim rate period (December 13, 2016 through the effective date of the final order) to be credited to customers. Through April 30, 2017 the value of this credit is approximately \$705,000. The Settlement further provides that the true-up adjustments applicable under the generation, transmission, and renewable riders will be calculated based on a 9.45 percent return on equity ("ROE"). The effect of reducing the ROE applicable to the rider true-up from the Company's previously approved 10.5 percent ROE provides approximately \$2.2 million of savings for customers. This credit will off-set, in part, the Company's under collection of certain riders which is described in detail on the attached Exhibit 1.

As a result of the Settlement an average residential customer using 980 Kwh per month will realize an increase of \$4.50 per month, or 4.4%.

\$7.5 Million Net Revenue Increase

The revenue increase of \$7.5 million is comprised of an overall increase in base retail rates and changes to the generation rider, renewable rider and transmission rider.

The net increase also reflects the elimination of the revenue collected under the environmental rider as the assets currently included in the environmental rider are moved to base retail rates. The Company's original revenue request and final Settlement amounts are set forth below:

Montana-Dakota's Original Application

	Revenue at Current Rates	Revenue Increase As Filed	Total Customer Revenue
Base Rates 1/	\$182,637,355	\$14,111,438	\$196,748,793
Renewable Rider	13,923,093	(1,399)	13,921,694
Transmission Rider	6,183,536	(725,568)	5,457,968
Total	\$202,743,984	\$13,384,471	\$216,128,455

Settlement Agreement

	Revenue at Current Rates	Revenue Increase Settlement	Total Customer Revenue
Base Rates 2/	\$173,988,617	\$12,854,897	\$186,843,514
Renewable Rider	13,923,093	(310,996)	13,612,097
Transmission Rider	6,183,536	(674,367)	5,509,169
Generation (RICE) Rider	8,648,738	(4,369,534)	4,279,204
Total	\$202,743,984	\$7,500,000	\$210,243,984

1/ Includes the Environmental and Generation Rider revenue.

2/ Includes the Environmental Rider and Generation Rider revenues absent the RICE.

Interim Rates

The Company implemented an interim rate increase effective December 13, 2016 of \$11,695,592 as authorized by the Commission. Total revenue included in the interim application was based on the Company's then current approved base retail rates and rider rates applied to projected 2017 sales volumes by class. The interim increase was based on a 10.00 percent ROE.

The interim increase also reflected the inclusion of reagent and sand expense which, as a part of the Settlement, will be moved to the Company's Rate 58 Fuel and

Purchased Power Adjustment. The interim increase included the Reagent and Sand costs, which will be removed when calculating the interim credit.

Calculation of the adjustment to be applied to interim revenue collected is described in detail below:

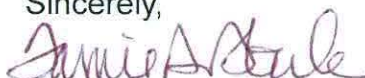
\$11,695,592	Interim Revenue Approved
<u>1,980,510</u>	Less Reagent / Sand
9,715,082	Net Increase - Comparable to Settlement Revenue
<u>7,500,000</u>	Settlement Revenue
\$2,215,082	Amount to be credited
18.9395%	Percent of interim revenue to be credited to customers

As noted above, during the period when interim rates are in place, the riders will not be adjusted. Actual interim revenues of \$3,726,230 have been collected through April 30, 2017 which equates to a credit due to customers as of April 30, 2017 of \$705,729.

Responses to the questions from the April 18, 2017 work session submitted in the April 19, 2017 letter from Ms. Jeffcoat- Sacco are attached hereto.

Please contact me at 701.222.7856 or tamie.aberle@mdu.com with any further questions.

Sincerely,



Tamie A. Aberle
Director of Regulatory Affairs

Cc: Service List

Case No. PU-16-666

**Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
Electric Rate Increase Application**

Service List

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Responses to Work Session Requests

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA PUBLIC SERVICE COMMISSION
WORK SESSION DATA REQUESTS
ISSUED APRIL 19, 2017
CASE NO. PU-16-666**

- 1. Please more fully explain the settlement provisions as they relate to the existing generation rider. Please be specific when identifying generation resources, treatment of associated costs in base rates or the rider, and the effective dates.**

Company Response:

Generation Rider:

- Current Generation Rider:
 - Includes the assets of the Heskett III and RICE generating units
 - Includes operating expenses for these assets as follows:
 - Operation & maintenance expenses
 - Depreciation
 - Taxes other than income
- Proposed Generation Rider - Settlement
 - Include only the assets of the RICE generating units
 - The ROE under this rider will be maintained at a 9.45 percent ROE through 2019. Effective January 1, 2020 the then authorized ROE will apply to the rate base associated with the RICE generating units.
 - Include operating expenses as follows:
 - Depreciation
 - Taxes other than income
 - All operation & maintenance expenses have been included in base rates and are not tracked separately.
 - Assets and expenses related to Heskett III will become part of base rates
- Effective date - changes will take place at the time new rates are implemented. The effect of the reduced ROE from 10.5% to 9.45% of \$656,190 associated with the interim amounts collected under the generation rider effective March 15, 2016 in Case No. PU-15-703 are proposed to be netted against the under collection of revenue under the tracker in accordance with the Settlement Agreement authorized in that case for a net under-collection of \$1,834,599.

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA PUBLIC SERVICE COMMISSION
WORK SESSION DATA REQUESTS
ISSUED APRIL 19, 2017
CASE NO. PU-16-666**

- 2. Please more fully explain the settlement provisions as they relate to the Renewable Rider. Please be specific when identifying generation resources, treatment of associated costs in base rates or the rider, and effective dates.**

Response:

Renewable Rider:

- Current Renewable Rider
 - Includes the assets of the Thunder Spirit wind facility
 - Includes operating expenses as follows:
 - Operation & maintenance expenses
 - Depreciation
 - Taxes other than income
 - Production tax credits
- Proposed Renewable Rider - Settlement
 - Includes the assets of the Thunder Spirit, Diamond Willow and Cedar Hills wind facilities
 - Include operating expenses as follows:
 - Operation & maintenance expenses
 - Depreciation
 - Taxes other than income
 - Production tax credits
 - Previously Cedar Hills and Diamond Willow and all associated costs were part of base rates and were not tracked separately

Effective date - changes will take place at the time new rates are implemented. The effect of the reduced ROE from 10.50% to 9.45% of \$1,277,402 associated with the interim amounts collected under the Renewable Rider effective January 7, 2016 in Case No. PU-15-704 are proposed to be netted against the under collection of revenue under the tracker in accordance with the Settlement Agreement authorized in that case for a net over collection or credit to customers of \$947,527.

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA PUBLIC SERVICE COMMISSION
WORK SESSION DATA REQUESTS
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- 3. Please more fully explain the settlement provisions as they relate to the Transmission Rider. Please be specific when identifying facilities, treatment of associated costs in base rates or the rider, and effective dates.**

Response:

Transmission Rider:

- Current Transmission Rider
 - Includes the assets of the Kenmare to Lignite and Little Muddy transmission lines and associated substations
 - Includes net transmission service expense provided by MISO and SPP in excess of the expense level established in the last electric rate case
 - Includes additional operating expenses as follows:
 - Depreciation
- Proposed Transmission Rider - Settlement
 - Include net transmission service expense provided by MISO and SPP
 - Transmission service expense will be offset by facility credits and other revenue received via the RTOs
 - Kenmare to Lignite and Little Muddy projects will be removed from the rider and all associated costs will be part of base rates and not tracked
 - Future transmission projects may be included in the tracker upon Commission approval.

Effective date - changes will take place at the time new rates are implemented. The effect of the reduced ROE from 10.50% to 9.45% of \$268,962 associated with the interim amounts collected under the Transmission Rider effective February 12, 2016 in Case No. PU-15-747 are proposed to be netted against the under collection of revenue under the tracker in accordance with the Settlement Agreement authorized in that case for a net under collection of \$4,115,134.

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA PUBLIC SERVICE COMMISSION
WORK SESSION DATA REQUESTS
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CASE NO. PU-16-666**

- 4. Please more fully explain the settlement provisions as they relate to the Environmental Rider. Please be specific when identifying facilities, treatment of associated costs in base rates or the rider, and effective dates.**

Response:

Environmental Rider:

- Current Environmental Rider
 - Includes the assets of the Big Stone AQCS project and the L&C MATS project
 - Includes additional Operating Expenses as follows:
 - Operation & maintenance expenses
 - Depreciation
 - Taxes other than income
- Proposed Provisions - Settlement
 - The Big Stone AQCS and L&C MATS projects will be removed from the rider and all associated costs will be part of base rates and not tracked separately
 - The tracker tariff will remain but will be used only for the under recovered balance and once recovered will be have a zero rate and no longer be shown on customer bills

Effective date - changes will take place at the time new rates are implemented. As of December 31, 2016 a net under collection of \$3,060,271 based on an ROE of 10.75 percent and the capital structure authorized in Case No. PU-10-124 remains to be collected from customers.

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA PUBLIC SERVICE COMMISSION
WORK SESSION DATA REQUESTS
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CASE NO. PU-16-666**

- 5. Which riders, if any, are currently specifically stated on the customers' bills? If stated on the bill, and if the settlement is adopted, will the rider continue to be stated even if the costs recovered by the rider will be zero?**

Response:

Currently all riders are separately stated on customers' bills.

If the Settlement is adopted by the Commission, the environmental rider rate would reflect the under-collection amount and be no longer shown on the customer's the bill after the under-collection is recovered. Note that in order to ensure that there are no over or under-collections, the remaining amounts after 12 months could be moved to the Fuel and Purchased Power Cost Adjustment.

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA PUBLIC SERVICE COMMISSION
WORK SESSION DATA REQUESTS
ISSUED APRIL 19, 2017
CASE NO. PU-16-666**

- 6. Please specifically identify, under the settlement provisions, what special contract information will be provided to the commission and on what time frame. Please indicate whether or not the contract delta information that will incorporate any credits provided by MDU back to any customers purchasing electricity on a special contract, or if those credits would be in addition to the contract delta for those customers.**

Response:

The Company is currently reviewing each of the four discounted rate contracts for justification of the discount on a go forward basis. On or before September 30, 2017, the Company will provide Commission Staff an update on the review status of each contract.

Currently the four discounted rate contracts do not include a provision allowing for new rate riders to be billed these customers causing an increase in the contract delta. The contract customers did pay interim rates applicable in this rate case and, therefore, the discounted rate customers will receive those bill credits.

The contract delta reported each year in the Company's annual report reflects the contract delta from the otherwise applicable rate, including any rate riders.

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA PUBLIC SERVICE COMMISSION
WORK SESSION DATA REQUESTS
ISSUED APRIL 19, 2017
CASE NO. PU-16-666**

- 7. Please identify the customers or types of customers that will be impacted by the settlement provisions regarding demand charges, and describe the anticipated impact.**

Response:

Under the terms of the Settlement the parties agreed that new demand charge components will not be added to any rate schedules. As part of the rate case, the Company proposed to impose an off-peak demand charge under the Time of Day Rate Schedule 31 which would not be part of the final rates if the Settlement is approved. This will not impact customers as the off peak demand charge is not part of authorized rates today.

**MONTANA-DAKOTA UTILITIES CO.
NORTH DAKOTA PUBLIC SERVICE COMMISSION
WORK SESSION DATA REQUESTS
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CASE NO. PU-16-666**

- 8. Please provide the projected return contribution of each customer class under the settlement provisions, and compare this information to the current return contribution for each class under existing rates, and to the originally estimated return contribution for each class provided in the application.**

Response:

Please see the table below. The 'Projected per Settlement' and 'Current at Existing Rates' RORs reflect Class Cost of Service Study results updated for 2016 actuals. The 'Originally Proposed' RORs can be found on the furthest right column of page 2 of Statement N.

Customer Class	Current @ Existing Rates		Originally Proposed		Projected per Settlement	
	ROR	As % of Total ROR	ROR	As % of Total ROR	ROR	As % of Total ROR
Residential	4.0%	66.0%	5.7%	76.4%	5.2%	73.2%
Small General	5.5%	90.6%	7.3%	97.9%	6.7%	94.4%
Large General	8.3%	137.5%	9.3%	124.7%	9.1%	128.2%
Municipal Lighting	11.9%	196.2%	11.9%	159.5%	12.5%	176.1%
Municipal Pumping	3.7%	60.4%	5.4%	72.4%	4.9%	69.0%
Outdoor Lighting	11.8%	194.4%	13.0%	174.3%	12.5%	176.1%
Total	6.06%	100.0%	7.46%	100.0%	7.10%	100.0%

Exhibit 1

Exhibit 1

Exhibit 1

Rider Collection Update

The true-up of the riders was deferred from 2016 until resolution of the Company's electric rate case to determine the appropriate rider true up ROE. The generation, renewable and transmission rider true-up will reflect the settlement ROE of 9.45%. This will offset in-part the under-recovery of the riders. One of the primary factors producing the under-collection was that billing units utilized in the Company's original rider filings were based on projected 2016 volumes which were calculated before 2015 actuals were available, and the estimates were based on assumed continued growth in the Bakken. In addition unseasonably mild weather in both the winter and summer of 2016 contributed to the volume shortfall.

Each rider was in an under collected status as of December 31, 2016 in the aggregate amount of \$10,265,031. As per the Settlement Agreement for PU-16-666 (the "Settlement") reduces the ROE used in the transmission, renewable and generation riders to 9.45%. This lower ROE reduces the under-collection amount by \$2.2 million for a one time under-collection balance of \$8,062,477 under the riders as of December 31, 2016. See Attachment A for additional detail.

The Company proposes to amortize the under-recovered balances for the transmission, generation and environmental riders over a 24-month period.

The reduction in the ROE pursuant to the Settlement results in an over collected balance of \$947,527 in the renewable rider. The Company proposes to amortize this balance over the next 12 months.

The inclusion of the over and under recovery in the riders will result in an increase of \$1.73 per month for the amortization period as shown on Attachment B based on the amortization rates shown on Attachment A.

The Company requests the Commission consider the proposal to implement the amortization of the rider balances at the same time final rates associated with the Settlement are implemented. Below is a more detailed review of each rider.

Generation Rider:

Effective date - changes are proposed to take place at the time new rates are implemented. The refund amounts associated with the interim amounts collected under the renewable rider effective January 7, 2016 in Case No. PU-15-704 are proposed to be net against the under collection of revenue under the tracker in accordance with the Settlement Agreement authorized in that case.

As of December 31, 2016:

- Net under collection of \$1,834,599 remains to be collected from customers
- Balance is based on an ROE of 9.45 percent and the Settlement capital structure
- Reflects a reduction of \$656,190 from interim rider ROE of 10.50%

Primary contributors to under collection

- Lower recoveries due to mild weather and projected volumes were established before the Bakken flattening

Renewable Rider:

Effective date - changes are proposed to take place at the time new rates are implemented. The refund amounts associated with the interim amounts collected under the renewable rider effective January 7, 2016 in Case No. PU-15-704 are proposed to be net against the under collection of revenue under the tracker in accordance with the Settlement Agreement authorized in that case.

As of December 31, 2016:

- Net over collection of \$947,527 is owed to customers
- Balance is based on an ROE of 9.45 percent and the authorized capital structure
- Reflects a reduction of \$1,277,402 from interim ROE of 10.50%

Primary contributors to over collection

- Tariff rates included 5 percent (based on 20 year life of asset) depreciation rate whereas actuals used 4 percent
- ROE - significant level of investment results in larger return component of the rider
- Partially offset by lower recoveries due to mild weather and projected volumes were established before the Bakken flattening

Transmission Rider:

Effective date - changes are proposed to take place at the time new rates are implemented. The refund amounts associated with the interim amounts collected under the transmission rider effective February 12, 2016 in Case No. PU-15-747 are proposed to be net against the under collection of revenue under the tracker in accordance with the Settlement Agreement authorized in that case.

As of December 31, 2016:

- Net under collection of \$4,115,134 million remains to be collected from customers
- Balance is based on an ROE of 9.45 percent and the authorized capital structure
- Reflects a reduction of \$268,962 from interim ROE of 10.50%

Primary contributors to under collection

- Transmission service expense was \$3.1 million higher than projected in the tracker submitted in 2015
- Lower recoveries due to mild weather and projected volumes were established before the Bakken flattening

Environmental Rider

Effective date - changes are proposed to take place at the time new rates are implemented. As of December 31, 2016 a net under collection of \$3,060,271 based on an ROE of 10.75 percent and the capital structure authorized in Case No. PU-10-124 remains to be collected from customers.

Primary contributors to under collection:

- Rider was developed based on the MATS project in place for approximately one half year
- Lower recoveries due to mild weather and projected volumes were established before the Bakken flattening

Montana-Dakota Utilities Co.
Electric Utility - North Dakota
Rider Summary Schedule
As of December 31, 2016

Rider	Annual Revenue 1/	Actual Revenue Collected	Variance (Over) / Under
Transmission	\$6,759,692	\$5,190,921	\$1,568,771
Renewable	15,108,466	12,302,727	2,805,739
Generation	9,669,944	7,304,950	2,364,994
Environmental	8,055,732	6,824,952	1,230,780
Total	\$39,593,834	\$31,623,550	\$7,970,284

Rider	Annual Revenue 2/ Assuming 9.45% ROE	Actual Revenue Collected	Variance (Over) / Under	Amortization Period (mo)	Per Kwh Charge
Transmission	\$9,306,055	\$5,190,921	\$4,115,134	24	\$0.00102
Renewable	11,355,200	12,302,727	(947,527)	12	(0.00047)
Generation	9,139,549	7,304,950	1,834,599	24	\$0.00046
Environmental 3/	9,885,223	6,824,952	3,060,271	24	\$0.00076
Total	\$39,686,027	\$31,623,550	\$8,062,477		

Rider	Annual Revenue @ 9.45%	Annual Revenue @ 10.50% 4/	Difference 10.50% vs 9.45%
Transmission	\$9,306,055	\$9,575,017	\$268,962
Renewable	11,355,200	12,632,602	1,277,402
Generation	9,139,549	9,795,739	656,190
Total			\$2,202,554

- 1/ Based on the overall revenue requirement as approved in the Company's last filing.
2/ Includes carrying charges and (over)/under collections prior to 2016.
3/ The Environmental rider was not approved on an interim basis so the ROE was 10.75%.
4/ Each rider was approved on an interim basis with a 10.50% ROE and was subject to the ROE approved in the next general rate case.

**Montana-Dakota Utilities Co.
Electric Utility - North Dakota
Estimated Residential Bill Increases
2017**

	Current Rates						Proposed Rates				
	Kwh	Base Rate	Energy	Riders	FPP Charge	Total Current Bill	Base Rate	Energy	Riders	FPP Charge	Total Proposed Bill
January	1,000	\$10.85	\$45.54	\$19.37	\$25.36	\$101.12	\$14.26	\$53.83	\$14.02	\$25.36	\$107.47
February	900	9.80	43.24	17.43	22.82	93.29	12.88	50.70	12.62	22.82	99.02
March	900	10.85	43.24	17.43	22.82	94.34	14.26	50.70	12.62	22.82	100.40
April	900	10.50	43.24	17.43	22.82	93.99	13.80	50.70	12.62	22.82	99.94
May	850	10.85	42.08	16.46	21.56	90.95	14.26	49.13	11.92	21.56	96.87
June	1,000	10.50	53.04	19.37	25.36	108.27	13.80	61.33	14.02	25.36	114.51
July	1,100	10.85	58.34	21.31	27.90	118.40	14.26	67.46	15.42	27.90	125.04
August	1,200	10.85	63.65	23.24	30.43	128.17	14.26	73.60	16.82	30.43	135.11
September	1,000	10.50	53.04	19.37	25.36	108.27	13.80	61.33	14.02	25.36	114.51
October	910	10.85	43.47	17.63	23.08	95.03	14.26	51.01	12.76	23.08	101.11
November	1,100	10.50	47.84	21.31	27.90	107.55	13.80	56.96	15.42	27.90	114.08
December	900	10.85	43.24	17.43	22.82	94.34	14.26	50.70	12.62	22.82	100.40
	<u>11,760</u>	<u>\$127.75</u>	<u>\$579.96</u>	<u>\$227.78</u>	<u>\$298.23</u>	<u>\$1,233.72</u>	<u>\$167.90</u>	<u>677.45</u>	<u>\$164.88</u>	<u>298.23</u>	<u>\$1,308.46</u>

980
Change by Component \$40.15 \$97.49 (\$62.90) \$0.00 **\$74.74**

Change including rider true-up per month \$6.23
6.1%

	Current	Proposed		
Basic Service Charge/ Day	\$0.35	\$0.46		\$53.95 4.4%
Energy				
1st 750 winter & summer	\$0.05304	0.06133		Rate Case Settlement Increase per month \$4.50
Over 750 winter	0.02304	0.03133		
TCA	0.00329	0.00403	1/	Difference associated with rider true-ups \$1.73
ECRR	0.00396	0.00076	1/	
GRRR	0.00500	0.00280	1/	
Renewable Rider	0.00712	0.00643	1/	
Fuel	0.02536	0.02536		
Total Riders (excl Fuel)	0.01937	0.01402		

1/ Include rider true-ups.