

February 3, 2017

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

Re: Case No. PU-17-____
Application for Approval to Update
Tariffs and Rate Schedules

Great Plains Natural Gas Co.(Great Plains), a Division of MDU Resources Group, Inc., herewith files an original and seven (7) copies of its Application for approval to revise its Natural Gas Tariff Volume No. 2 in compliance with the North Dakota Public Service Commission's (Commission) Order issued in Case No. PU-16-604.

The natural gas rates proposed herein will produce the same level of distribution revenues as the currently authorized distribution rates. The rates within each rate class will also produce the same level of distribution revenues by class as the currently authorized distribution rates. Great Plains is proposing to modify the rate form and update the cost of gas, extension policy, meter testing policy and its terms and conditions of service as described in the Application.

In support of this Application Great Plains provides the following Exhibits:

- Exhibit A- Proposed Natural Gas Tariff
- Exhibit B- Supporting Statements A-N

Please refer all inquiries regarding this filing to:

Tamie A. Aberle
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street

Bismarck, ND 58501
Tamie.Aberle@mdu.com

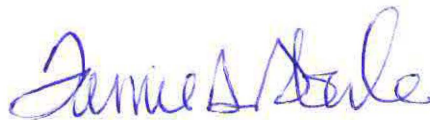
Also, please send copies of all written inquiries, correspondence and pleadings to:

Karl Liepitz
Senior Attorney
MDU Resources Group, Inc.
P.O. Box 5650
Bismarck, ND 58506-5650
Karl.liepitz@mduresources.com

Great Plains submitted a check in the amount of \$500.00 on December 29, 2016 for filing fees. The \$50.00 filing fee required in accordance with N.D.C.C. §49-05-05 is covered by that submittal. In the event the Commission incurs additional expenses in processing this Application, Montana-Dakota will submit the fees required by N.D.C.C. §49-05-04.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,



Tamie A. Aberle
Director of Regulatory Affairs

Attachments
cc: Karl Liepitz

proposing to maintain the current class contributions to the overall rate of return. The Company is proposing to update the rate forms and has included a floor and ceiling price to the transportation rate schedule as requested by the Commission in Case No. PU-16-604. Great Plains is proposing changes to the rate forms for firm and interruptible services as described below.

II. Description of Applicant

Great Plains is a Division of MDU Resources Group, Inc., a Delaware corporation duly authorized to do business in the State of North Dakota as a foreign corporation, and doing business in the State of North Dakota as a public utility subject to the jurisdiction of and regulation by the North Dakota Public Service Commission (Commission) under N.D.C.C. Title 49. Great Plains' Certificate of Incorporation and amendments thereto have been previously filed with the Commission and such Certificate and Amendments are hereby incorporated by reference as though fully set forth herein. As of January, 2017, Great Plains provides natural gas service to 2,280 customers in its North Dakota service territory consisting of service to the city of Wahpeton. Great Plains was purchased by MDU Resources Group, Inc. in 2000 at which time there were no changes to rates. This is the first rate update, other than cost of gas changes, the introduction of a transportation service tariff, the conversion to billing on a dk basis, application of an extension surcharge and the contract change approved in Case No. PU-16-604 since the purchase. Great Plains currently provides

firm gas service to approximately 2,263 firm service customers and interruptible sales service to 16 customers. The only transportation service provided currently is that provided pursuant to the Contract Agreement with ProGold Limited Liability Company approved by the Commission in Case No. PU-16-604.

III. Proposed Tariffs

Great Plains respectfully submits herewith the following tariff sheets as more fully described below and provided as Exhibit A, to be effective upon Commission approval:

	NDPSC Volume 2	
	<u>Proposed Tariff</u>	<u>Canceling Current Tariff</u>
•	Table of Contents 4 th Revised Sheet No. 1	3 rd Revised Sheet No. 1
•	Firm Gas Service - General Rate 65 3 rd Revised Sheet No. 2	2 nd Revised Sheet No. 2
•	Interruptible Gas Service - General Rate 71 3 rd Revised Sheet No. 3 2 nd Revised Sheet No. 3.1 1 st Revised Sheet No. 3.2	2 nd Revised Sheet No. 3 1 st Revised Sheet No. 3.1 Original Sheet No. 3.2
•	Reserved for Future Use 3 rd Revised Sheet No. 4 2 nd Revised Sheet No. 4.1 1 st Revised Sheet No. 4.2	2 nd Revised Sheet No. 4 1 st Revised Sheet No. 4.1 Original Sheet No. 4.2
•	Interruptible Transportation Service Rate 80 2 nd Revised Sheet No. 5 1 st Revised Sheet No. 5.1 2 nd Revised Sheet No. 5.2	1 st Revised Sheet No. 5 Original Sheet No. 5.1 1 st Revised Sheet No. 5.2

1 st Revised Sheet Nos. 5.3 - 5.4	Original Sheet Nos. 5.3 - 5.4
2 nd Revised Sheet Nos. 5.5 - 5.6	1 st Revised Sheet No. 5.5 - 5.6
• Reserved for Future Use	
2 nd Revised Sheet No. 5.7	1 st Revised Sheet No. 5.7
3 rd Revised Sheet No. 6	2 nd Revised Sheet No. 6
• Cost of Gas Rate 88	
3 rd Revised Sheet No. 7	2 nd Revised Sheet No. 7
Original Sheet No. 7.1	
• Reserved for Future Use	
132 nd Revised Sheet No. 8	131 st Revised Sheet No. 8
• General Terms and Conditions Rate 100	
1 st Revised Sheet Nos. 9 - 9.1	Original Sheet No. 9 - 9.1
1 st Revised Sheet Nos. 9.4 - 9.8	Original Sheet No. 9.4 - 9.8
2 nd Revised Sheet No. 9.9	1 st Revised Sheet No. 9.9
1 st Revised Sheet Nos. 9.10 - 9.16	Original Sheet No. 9.10 - 9.16
• Meter Testing Procedures Rate 101	
1 st Revised Sheet Nos. 10 - 10.1	Original Sheet Nos. 10 - 10.1
• Firm Gas Service Main and Service Line Extension Policy Rate 105	
Original Sheet No. 11 - 11.3	
• Interruptible Gas Main and Service Line Extension Policy Rate 106	
Original Sheet No. 12 - 12.1	

IV. Revenue Requirement

The per books 2015 income statement and rate base for the total Company and for the North Dakota gas operations are provided on Statement J, pages 1 and 2. As shown on Statement J page 1, North Dakota gas operations provided an overall return on rate base of 2.058 percent for the twelve months ended December 31, 2015. The details for each line item, i.e. sales revenue, other revenue, etc., are included in the

referenced Statements. The projected 2017 revenue requirement supporting this filing is shown on page 3.

The projected 2016 and 2017 cost of service is presented in Statement K, which contains all of the schedules supporting the income statement on page 1, and the rate base identified on Statement L, page 1 followed by all of the schedules supporting.

Income Statement

Projected revenue, based on current rates and expected sales and transportation volumes for calendar year 2017, is summarized on Statement K, page 2 and includes miscellaneous operating revenues. Operating expenses have been updated to reflect the Company's projected costs and/or inflation and are summarized on pages 7 through 10.

Projected depreciation expense is summarized on Statement K, page 28. The calculation of depreciation expense and associated accumulated reserve for depreciation is shown on pages 29 and 30. Depreciation expense is calculated on projected plant using the projected plant in service, with the depreciation rates from the 2015 technical update to Great Plains' depreciation study. The composite depreciation rates are summarized by function on Statement G, page 2.

Projected taxes other than income are shown on pages 31 through 34. North Dakota federal and state income taxes, as shown on page 35, are fully normalized. Therefore, only current taxes are shown for the projected periods on the income

statement since any tax deductions would be fully offset by deferred income taxes.

Income tax expense reflects an interest expense deduction as shown on page 36.

Rate Base

The rate base reflects average plant and related balances and is summarized on Statement L, page 1. Page 1 presents average per books 2015 and projected 2016 and 2017 rate base for North Dakota gas operations. Pages 2 through 19 are the supporting components of the projected rate base.

As shown on page 3, plant in service has been adjusted by projected capital additions, as summarized on page 4, as well as retirements. The projected accumulated reserve for depreciation is summarized on Statement L, page 9 and reflects depreciation activity as well as retirements.

The projected working capital items are shown on pages 10 through 16. Great Plains is proposing to add gas in storage and prepaid commodity charges as components of working capital. The North Dakota portion (the City of Wahpeton) has been included as a part of the North District within the Great Plains gas system. Beginning in July 2017, the entire Great Plains gas system will be combined. This will allow Great Plains' storage gas to be used across the entire system rather than for only the South District.

Accumulated deferred income tax balances are summarized on page 17.

Capital Structure

Great Plains' overall projected 2017 rate of return is 7.208 percent, as shown on Statement D, page 1, is based on a return on equity of 9.50 percent, the same as the equity return authorized in Montana-Dakota Utilities Co.'s (Montana-Dakota), also a Division of MDU Resources Group, Inc. most recent natural gas rate case in Case No. PU-15-90. The return also reflects the 2017 projected capital structure and cost of debt.

V. Class Cost of Service Study

A class cost of service study is provided in Exhibit B, Statement M where a summary of the results of the embedded class cost of service study by the major rate classifications, Small Firm General, Large Firm General, and Interruptible Sales is presented. Statement M, pages 1 and 2, provides a report entitled "Cost of Service by Component." This report shows the total dollars and unit cost required under each rate if the Projected rate of return of 7.208 percent were to be earned for the demand, energy and customer cost components of each rate schedule.

Statement M, pages 3 through 15, is a report of the projected rate base and income statement as allocated to each rate schedule. The allocator factors are provided in Statement M, pages 16 and 17. The embedded class cost of service study is based on the projected natural gas operations results for the 12 months ended December 31, 2017 as discussed in the Revenue Requirement section.

The cost of service study was prepared with costs functionalized and allocated in a manner similar to what was done in the most recent Montana-Dakota natural gas rate case. The results indicate the overall North Dakota natural gas rate of return based on projected 2017 results is 7.333% with Small Firm General, Large Firm General and Interruptible Sales returning -5.029%, 0.0692%, and 55.897% respectively. No costs were allocated to the Transportation Contract rate currently in place and the associated revenues were credited to the firm and interruptible classes. In essence the study excludes the transportation contract rate. Further, there is currently a single firm general class, but as mentioned above the model is structured to reflect small and large firm general classes. The split in the firm general class is proposed to be based on meter size, with those customers served by meters rated up to and including 500 cubic feet per hour belonging to the small firm class and any customers with meters rated over 500 cubic feet per hour belonging to the large firm class.

The class study indicates the need for increased basic service charges for each customer class and highlights current subsidization amongst the classes. As discussed further in the Rate Design section the Company is proposing increases to each of the basic service charges, but not addressing interclass subsidies at this time.

VI. Rate Design

The proposed rates produce the same distribution revenues in total and by class as the currently authorized rates produce based on the Projected 2017 billing

determinants provided in Exhibit B, Statement L. As noted above, Great Plains is proposing a split of the Firm General class based on meter size. Any customers with an installed meter rated at 500 cubic feet per hour or less are proposed to be classified as Small Firm General Service and customers with an installed meter rated at greater than 500 cubic feet per hour proposed to be classified as Large Firm General Service. This will result in 2,105 customers served under the Small Firm General Service Basic Service Charge and 158 served under the Large Firm General Service Basic Service Charge. The Small Firm General Service class includes both residential customers and small commercial customers. The Company is proposing to continue providing firm service under one rate schedule (designated as Firm General Service Rate 65) with two levels of Basic Service Charges and a flat Distribution Delivery Charge. This will eliminate the declining block rate structure currently in place for firm customers. The Small Basic Service charge is proposed at \$0.23 per day or approximately \$7.00 per month representing an increase of \$3.50 per month from the current Basic Service Charge of \$3.50 per month. The Class Cost of Service Study supports a Basic Service Charge of \$22.64 per month for the Small Firm General Class however, this increase would be too large in one step. The Large Basic Service Charge is proposed at \$0.50 per day or approximately \$15.21 per month representing an increase of \$11.71 per month. The Class Cost of Service Study results indicate the customer component is approximately \$56 per month. Again, the increase in the Basic Service Charge is mitigated in this proposal. Customers on the firm rate schedule are currently paying an

increment of \$0.2223 per dk for the first 10 dk used each month. This will be eliminated under the proposed rate schedule and will offset a portion or all of the increase in the Basic Service Charge depending on the customers' volumetric use each month. A Distribution Delivery Charge of \$0.786 per Dk is necessary to recover the same revenue level from the firm customers as produced today with the changes noted above. Bill comparisons for the Small and Large Firm General customers are provided in Statement N, pages 4 and 5. As shown, the proposed rate design will not adversely affect customers while providing a transition to rate forms more widely held industry wide today.

The Interruptible Sales Rate (now denoted as Rate 71) is currently available to customers with standby capability or the ability to shut down when an interruption of service is called by the Company. The Basic Service Charge is proposed to increase from \$3.50 per month to \$250.00 per month which is supported by the Class Cost of Service Study but not the full customer costs identified of approximately \$284 per month. A Distribution Delivery Charge of \$0.751 per dk applicable to all volumes of natural gas delivered to the interruptible service customers is necessary to recover the total distribution revenues produced by the Interruptible Sales Rate under the currently authorized rates. This rate form will allow for the elimination of rate blocks currently effective under the interruptible service tariff that are currently set at an incremental amount of \$0.402 for the first 400 dk delivered each month and an incremental amount of \$0.1535 per dk collected on the next 2,600 dk per month. The interruptible service

customers are not adversely affected by the proposed changes as shown by the bill comparisons provided in Statement N, page 6. The majority of the interruptible service customers are not harmed by the increase in the Basic Service Charge because of the associated decrease in the Distribution Delivery Charge. The few customers that would see a potential double digit increase are either using natural gas as a backup fuel such as with a ground source heat pump or would have the option of moving to the Firm Service Rate Schedule.

The Interruptible Transportation Service schedule (now designated as Rate 80) has been modified to reflect the charges applicable under the Interruptible Sales Service Rate 71 with a Basic Service Charge of \$250.00 per month and a Distribution Delivery Charge of \$0.751 per dk. As noted earlier, Great Plains does not currently provide service to any customers under the Transportation Service schedule. In compliance with the Commission's Order in Case No. PU-16-604, a maximum and minimum Distribution Delivery Charge has been designated on the transportation service tariff with the maximum rate set at the Interruptible Sales Rate 71 level and the minimum charge set at a rate of \$0.130 per dk. The minimum charge was set based on the demand component for the interruptible sales class based on an allocation excluding distribution plant. Typically, a negotiated distribution rate is necessary to avoid a bypass situation that does not involve the distribution system i.e., those customers are located near the transmission system. Therefore, the minimum cost was

determined based on the transmission investment and associated allocations of general and common plant and expenses.

VII. Cost of Gas Tariff

Great Plains is proposing to combine the North and South District gas supply areas in order to better utilize contracted transportation capacity, gas supply contracts and storage assets, and more effectively manage the capacity reserve margin.

Wahpeton, North Dakota is currently part of the North District, which also serves the Minnesota communities of Breckinridge, Crookston, Fergus Falls, Pelican Rapids and Vergas. The South District currently serves customers in 13 communities around the Marshall, Minnesota area.

Great Plains considered the following standards when making the determination to combine the North and South Districts:

- That the proposed consolidation reflects an integrated system and the physical flow or transfer of natural gas is possible across the entire consolidated pipeline system; and
 - The North and South districts have very similar gas supply and pipeline costs.
- However, there will be slight changes in demand and commodity charges for customers.

Great Plains is also proposing to charge interruptible customers a demand component based on a 100 percent load factor allocation of Great Plains' system

demand charges (i.e. total pipeline demand charges divided by 100 percent of contracted capacity). Interruptible customers utilize and benefit from capacity on the pipeline throughout the year and should bear a portion of the costs of acquiring that capacity. The calculated 100 percent load factor rate is proposed to be assessed as a per unit cost of demand for interruptible customers and any amounts received from interruptible customers would be credited to firm customers in the balancing account and reflected as a credit to rates through the annual GCR. The proposal will not result in incremental capacity and capacity will not be reassigned to the interruptible customer. Interruptible volume usage will ultimately determine the credit the firm customers will experience. For this filing, Great Plains has presented a credit to the demand component of the cost of gas for firm customers based on projected interruptible volumes to illustrate the effect to firm customers.

The table below shows the effect of the proposed changes to the cost of gas:

	2017 Projected		
	<u>Combined</u>	<u>Current (North)</u>	<u>Change</u>
<u>Firm</u>			
Demand	\$1.2672	\$1.5916	(\$0.3244)
Gas Commodity	<u>3.7709</u>	<u>3.7665</u>	<u>0.0044</u>
Cost of Gas	\$5.0381	\$5.3581	(\$0.3200)
<u>Interruptible</u>			
Demand	\$0.2990	\$0.0000	\$0.2990
Gas Commodity	<u>3.7709</u>	<u>3.7665</u>	<u>0.0044</u>
Cost of Gas	\$4.0699	\$3.7665	\$0.3034

VIII. Proposed Tariff Changes

Great Plains is proposing the following changes to its gas tariffs as clearly identified in the legislative copy of the tariffs provided in Appendix B of this Application:

- Clarify the payment provision applicable under each rate schedule. The Company is also proposing to extend the payment due date from the current 15 days to 22 days as identified in the Late Payment provision, included in Section V, paragraph 12 of the General Terms and Conditions Rate 100 tariff.
- Revise the Interruptible Gas Service - General tariff to provide customers with the option of taking firm service through the same meter under a contract basis in lieu of installing a separate firm service or meter. The first through the meter provision is currently provided for under the Transportation Service tariff and the Company is now proposing to expand the offering to its interruptible gas service customers also.
- Remove the Metering Requirements provisions currently included in the Interruptible Gas Service and Transportation Service tariffs. With the installation of the Fixed Network system throughout Great Plains' system, meters can be accessed at any time through the network and therefore renders these provisions obsolete.
- Eliminate the Interruptible Gas Service - Grain Processing tariff. Currently no customers are taking service under this tariff. Any grain drying customers would take service under the otherwise applicable tariff.

- State the reconnection fee of \$45.00 applicable to seasonal or temporary customers rather than the current language of "equal to the Company's minimum service charge."
- Propose to increase Returned Check Charge from \$12.00 to \$18.25 to reflect the costs more closely associated with the returned check process.
- In addition, the General Terms and Conditions Rate 100 Tariff contains several modifications that are self-explanatory. The General Terms and Conditions tariff has been provided in its entirety regardless if a sheet did not include a revision for ease of reference.

IX. Gas Extension Policy

The Company is proposing two new tariffs, Firm Gas Service Extension Policy Rate 105 and Interruptible Gas Service Extension Policy Rate 106. Currently the Company provides for distribution system extensions as outlined in Rate 100, §V.¶4 which states: "The Company shall not be required to extend its gas distribution mains more than one hundred (100) feet for each customer to be served from any such extension thereof."

With the introduction of these two new rates, the Company is proposing to expand upon the policy used to evaluate main and/or service line extensions. The expansion provides both Great Plains and prospective customers with a more defined

extension policy by further outlining the applicability, cost review and responsibilities, and refund provisions applicable to firm and interruptible extensions.

Under the proposed Firm Gas Service Extension Policy Rate 105, Great Plains will extend a gas main up to, but not to exceed, 95 feet per home connected within twelve months from the start of construction, consistent with the current provision provided for in Rate 100. Main extensions exceeding 95 feet, or where natural gas will not be the primary fuel used for space heating, may require cost participation if the estimated costs exceeds the Maximum Allowable Investment (MAI) as outlined in the proposed tariff.

The proposed Levelized Annual Revenue Requirement (LARR) of 12.417 percent reflects the components of the revenue requirement included in Statements A through L.

The Company is also proposing several payment options in the event a contribution is required for an extension: a one-time payment prior to construction, an additional monthly charge, an annual minimum charge, or a combination thereof, or the posting of a bond or irrevocable letter of credit.

A refund provision is being proposed that allows for the refunding of a main extension contribution, for a period up to five years, in the event additional customers are connected to the main extension for which a contribution was made.

Firm service line extensions, exceeding 65 feet, would also be evaluated using the same cost evaluation formula.

Under the proposed Interruptible Gas Main and Service Line Extension Policy Rate 106 tariff, customers pay the total cost of the extension prior to construction or may post a bond or letter of credit.

A refund provision is also being proposed for interruptible customers allowing a refund of a contribution up to five years in the event additional customers are connected to the extension in which a contribution is made.

X. Meter Testing Policy

Great Plains' current meter testing program is outlined in Meter Testing Procedures Rate 101. The current policy outlines the testing methodology and test period by class of meters. The policy also provides that Great Plains will, upon customer request, test a meter no more than once in twelve months. The Company will also retain all meter test records for at least two years with the results filed with the Commission.

The Company is proposing to now classify its in-service meter testing program into two distinct classifications:

- All active meters less than 650 cubic feet per hour (CFH) will be tested under the Random Sample Program where Great Plains meters will be combined with Montana-Dakota Utilities Co.'s active meters less than 650 CFH for purposes of random sample selection testing via a computer generated process. Meters more than ten years old and active meters that have not been tested in the last ten years

will be placed into a class. The class will further be defined based on manufacturer, type and last install date in five year groups. Lot results will be then be reviewed and the appropriate action taken for the respective lots.

- All active meters greater than 650 CFH will be tested, and the appropriate action taken, at a periodic interval of at least once in ten years.

New meters will continue to be tested. The meter supplier(s) will provide the Company with the test data for all meters. In addition, 5 percent of all new meter lots will be tested prior to installation.

The Company is also proposing to file the results of its annual test results by December 15 of each year for the previous calendar year.

The proposed changes to Great Plains' meter testing program will recognize that all gas meter testing today is performed and evaluated in one central meter testing location, the Bismarck Service Center. The two companies' meters, for purposes of the random sample selection process, can be pooled and evaluated on more expansive scale. This expanded scale will provide a greater statistical base and improved resolution for which to determine accuracy and performance of a group of meters. It also provides testing and evaluation uniformity throughout the entire program while allowing the shared knowledge of any meter-related issues.

The pooling of meters will be for the purpose of random sample selection only. Great Plains meters will remain Great Plains meters and only be installed on Great Plains' customers' premises.

XI. Conclusion

Applicant respectfully requests that the Commission:

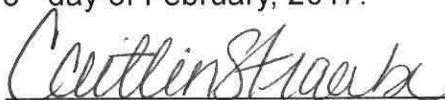
1. Give Notice of Opportunity to request a hearing to interested parties and, if no hearing is requested within twenty days, to waive the hearing; and
2. Enter an Order authorizing the proposed tariffs provided in Exhibit B; and
3. Grant such other relief as the Commission shall deem appropriate.

Dated this 3rd day of February, 2017.

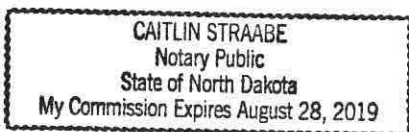


Tamie A. Aberle
Director of Regulatory Affairs

Subscribed and sworn to before me this 3rd day of February, 2017.



Caitlin Straabe, Notary Public
Burleigh County
State of North Dakota
My Commission Expires: 08/28/2019



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