

**STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION**

**Public Service Commission** )  
**Montana-Dakota Utilities Co.** )  
**2017 Natural Gas Rate Increase** )  
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**Case No. PU-17-295**

**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 Federal Executive Agencies (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, rate base, 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 gas service in North Dakota. The settling parties did not reach an agreement on Montana-Dakota's proposed System Safety and Integrity Program ("SSIP") cost recovery mechanism and agree that the issue will be decided by the Commission.

**PROCEDURAL HISTORY**

1. On July 21, 2017, Montana-Dakota filed an application to increase its rates for natural gas service in North Dakota to provide additional annual revenue of \$5,868,389, or a 5.4 percent increase over current rates. Filed with the Application were revised tariffs, direct testimony, exhibits and supporting statements.
  
2. Montana-Dakota concurrently submitted an Application and Notice for an

interim increase in gas rates in the annual amount of \$4,561,074 to be effective within 60 days from filing.

3. The Commission suspended Montana-Dakota's general rate increase application by motion on August 16, 2017.

4. On September 6, 2017, the Commission issued an Order approving an interim rate increase of \$4.6 million to become effective for service rendered on or after September 19, 2017.

5. On September 22, 2017, the Commission issued a Notice of Intervention Deadline, Notice of Public Input Sessions and Notice of Hearing, scheduling public input sessions for October 24 and 25, 2017, and scheduling the formal hearing for February 28, 2018. The Notice of Hearing also encouraged anyone interested in becoming a party to the proceeding to file a petition to intervene by November 10, 2017. The public input sessions were held as scheduled.

6. Petitions to Intervene were filed by the AARP and Federal Executive Agencies ("FEA"). On November 14, 2017, the Administrative Law Judge granted the petitions to intervene of AARP and FEA.

7. On January 12, 2018, Montana-Dakota filed a Motion for Continuance to allow it and the other parties the opportunity to consider the implications that the Tax Cuts and Jobs Bill Act of 2017 on the Application. As a result of the Tax Act, MDU reduced its annual revenue increase to \$3,575,388, representing increases of \$2,108,163 for Residential and \$1,467,225 for Firm General, which constitutes a 3.3% increase over current rates. The Company proposed the requested increase be divided among the customer classes as follows:

<u>Customer Class</u>	<u>Percent Increase</u>
Residential	3.6%
Firm General	3.3%
Total	<u>3.3%</u>

On February 14, 2018, the Commission granted the Motion for Continuance and extended interim rates until August 31, 2018. The Commission set the Hearing for May 30, 2018.

8. On February 14, 2018, Montana-Dakota filed a request to update interim rates to reflect the 2017 Tax Cuts and Jobs Act requesting interim rates of \$2,687,424. On February 27, 2018, the Commission issued an Order adopting Montana-Dakota's request for updated interim rates.

9. A hearing was held on MDU's Application beginning on May 30, 2018, and continuing through June 1, 2018.

10. Following the Hearing, settlement discussions were held between the Settling Parties pursuant to the Commission's Settlement Guidelines dated January 4, 1995. As a result of the settlement discussions, the Settling Parties reached this Settlement Agreement.

11. 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 gas rates for retail customers

in North Dakota to yield an annual revenue increase of \$2.5 million effective upon a final order in this proceeding. This represents an overall increase in rates of 2.30%.

2. Return on Equity. The Parties agree to, and recommend the Commission approve, a return on equity of 9.40 percent effective upon a final order in this proceeding resulting in an overall rate of return of 7.236 percent based on the following capital structure:

	<u>Ratio</u>	<u>Cost</u>	<u>Return</u>
Long Term Debt	43.036%	5.282%	2.273%
Short Term Debt	5.968%	2.831%	0.169%
Common Equity	<u>50.996%</u>	9.400%	<u>4.794%</u>
Total	<u>100.000%</u>		<u>7.236%</u>

3. Excess Deferred Taxes. The Parties agree to, and recommend the Commission approve, that the Company will amortize Excess Deferred Income Taxes (EDIT) as follows:

- a) All plant related EDIT shall be amortized using the ARAM method;
- and
- b) All non-plant related EDIT shall be amortized over three (3) years.

4. 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>
Residential Service	2.53%
Firm General Service	2.33%
Air Force Delivery	0.0%
Small Interruptible	0.0%
Large Interruptible	0.0%

Overall

2.30%

Residential customers will receive an annual revenue increase of \$1,474,080 and Firm General customers will receive an increase \$1,025,920. The average monthly increase for a residential customer will be \$1.27.

5. Residential Basic Service Charge. The Parties agree to, and recommend the Commission approve, that all revenue increases for the Residential Class be collected through an increase to the fixed basic service charge, which amounts to \$0.6860 per day or \$20.87 per month.

6. System Safety and Integrity Program. The Parties did not reach any agreement regarding Montana-Dakota's proposed System Safety and Integrity Program ("SSIP") cost recovery mechanism for the pipeline replacement plan, Rate 94. The Parties agree the determination of whether to adopt the proposed Rate 94 will be an issue left for the Commission.

7. Compliance Tariffs. The Company shall file compliance tariffs reflecting the revenue requirement provisions and the revenue allocation denoted in this Settlement Agreement. The Company also agrees with Advocacy Staff's recommended changes noted below and will revise the provisions accordingly in its compliance filing, including:

- Rate 74 paragraphs 2 and 3 under Metering Requirements;
- Rate 100 Section III paragraph 4 - Access to Customer's Premises;
- Rate 100 Section IV paragraph 2 - Customer's Equipment;
- Rate 100 Section V paragraph 10(c) and (d) - Billing Adjustments; and
- Rate 100 General Provisions page 15 – remove "and materials at retail

prices.”

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

8. NSF Check Charge. The Parties agree to, and recommend the Commission approve, that Montana-Dakota will set the NSF Returned Check Charge at \$15. The Company also agrees to file an electric tariff change so that the NSF check charge is the same for both gas and electric service.

9. Monthly Cost of Gas Adjustments. The Parties agree to, and recommend the Commission approve, revising the minimum filing threshold for its Rate 88 – Cost of Gas and Rate 99 – Cost of Gas Propane from 10 cents to 25 cents. In addition, Montana-Dakota agrees to work with Commission Staff prior to the annual surcharge filing in October 2019 to explore alternatives to the current process underlying the annual surcharge process.

10. The parties agree that upon execution of this Stipulation there are no outstanding issues related to the TCJA regarding Montana-Dakota gas distribution operations in North Dakota.

#### **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. Interim rates for the period beginning September 19, 2017 through December 31, 2017 shall be compared to the revenue requirement prior to the implementation of the TCJA; whereas interim rates for the period beginning January 1, 2018 through February 26, 2018 and the period February 27, 2018 through the date of implementation of final rates will be compared to the revenue increase granted in this proceeding. 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 August 16, 2017, 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 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 gas rates. For these reasons, the Settling Parties urge the Commission to approve the Settlement Agreement.

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Dated this 18<sup>th</sup> day of July, 2018.

**MONTANA-DAKOTA UTILITIES CO.**

By: David Singer  
Its: **EVP Regulatory Affairs**


Dated this 18<sup>th</sup> day of July, 2018.

**NORTH DAKOTA PUBLIC SERVICE  
ADVOCACY STAFF**

By:   
Its: Advocacy Staff Counsel

Dated this 19<sup>th</sup> day of July, 2018.

**FEDERAL EXECUTIVE AGENCIES**

By: 

Its: ANDREW J. UNSICKER, Major, USAF  
Chief, Utility Law Field Support Center

**STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION**

**Public Service Commission            )**  
**Montana-Dakota Utilities Co.        )**  
**2017 Natural Gas Rate Increase     )**  
**Siting Application                    )**

**Case No. PU-17-295**

**CERTIFICATE OF SERVICE**

The undersigned certifies that true and correct copies of the following:

**Settlement Agreement**

was served electronically on the following:

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Dated today, July 19, 2018.

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By: /s/ Paul R. Sanderson  
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