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Via hand-delivery

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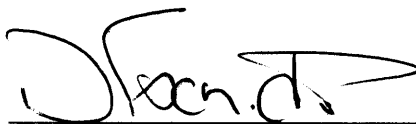
Re: Montana-Dakota Utilities Co., Case No. PU-17-295

Attached are an original and seven copies of the **POST-HEARING BRIEF OF AARP** in the above-referenced matter.

A copy of this brief has been served upon all parties of record. Please feel free to contact me or John Coffman with any questions or concerns.

Sincerely,

TSCHIDER and SMITH



David A. Tschider
Local Counsel for AARP

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

Montana-Dakota Utilities Co., a Division of)	
MDU Resources Group, Inc.)	Case No. PU-17-295
2017 Natural Gas Rate Increase Application)	

POST-HEARING BRIEF OF AARP

As an intervenor in this Montana-Dakota Utilities Co. (“MDU” or “Company”) rate case, AARP hereby provides this Brief on the evidence that was admitted into the record during the hearing held by the Commission on May 30 through June 1, 2018. This Brief summarizes the evidence related to three contested issues raised by AARP, each of which impact the reasonableness of MDU’s residential natural gas delivery rates. This brief will focus primarily on the contested issues related to the SSIP surcharge and the Residential Basic Customer Charge.

AARP proffered the expert testimony and analysis of Scott Rubin to the Commission on these issues.¹ With over 35 years of experience in over 20 states, Mr. Rubin has garnered substantial expertise in the economic regulation of utilities, including significant recognition for his work on cost allocation and rate design issues for regulated energy companies.

¹ Exhibit AARP-41, Direct Testimony of Scott Rubin; Exhibit AARP-42, Surrebuttal Testimony of Scott Rubin; Transcript, pp. 434-484.

INTRODUCTION

AARP, with its nearly 38 million members in all 50 States, the District of Columbia, and the U.S. territories, is a nonpartisan, nonprofit, nationwide organization that helps empower people to choose how they live as they age, strengthens communities, and fights for the issues that matter most to families, such as healthcare, employment and income security, retirement planning, affordable utilities and protection from financial abuse. AARP has over 88,000 members in North Dakota, many of whom are residential natural gas customers of the Applicant utility MDU.²

AARP is advocating for protection of the economic interests of MDU's residential gas customers, particularly for the protection of low usage residential consumers, who are significantly threatened by MDU's rate design proposals in this matter. Many older energy consumers use less than the average amount of energy consumption and, despite working hard to conserve their energy usage, no amount of conservation or energy efficiency can reduce a fixed charge imposed upon their residential energy bill. MDU proposing to increase residential rates higher than the overall system increase and, within the residential class, is proposing that 100% of the increase to the residential class be used to increase the customer charge further—a charge that is unavoidable, regardless of how little natural gas a customer consumes. As explained below, this radical 100% fixed charge rate design reduces the economic benefit to customers from their efforts at conservation and energy efficiency. This proposal is also contrary to the utility's own class cost of service study (CCOSS). It has proven to be extremely unpopular among consumers, and thus runs counter to the ratemaking principle of "public acceptability".

² AARP's Petition to Intervene, p. 2.

Even though MDU's basic monthly residential customer charge was about \$9.00 (well within the national average) only just a few years ago, MDU has proposed in this case to increase the fixed customer charge for residential households to the extremely high rate of \$22.58. Even now, despite having a fixed charge that is already far out of the mainstream, MDU continues to support applying the *entire* residential revenue requirement to the basic customer charge, with 0% of the revenue requirement for the delivery of natural gas being applied to a volumetric or usage component. The evidence at the hearing shows that MDU has failed to meet its burden of proof to support this unbalanced proposal; in fact, MDU's residential rate design is inconsistent with the substantial weight of the record.

The other major issue facing residential consumers is MDU's proposal to add a new SSIP³ surcharge (or "rider" or "adjustment mechanism") on top of the rate increase in this case, which is unnecessary for the provision of safe and adequate service, and which could cause significant future harm to the economic interests of North Dakota households. Such piecemeal approaches to utility ratemaking are universally condemned by consumer advocates, and such single-issue infrastructure surcharges have often produced controversy and confusion in other states, even when consumer protections are added to such surcharges. MDU has proposed no consumer protections in its SSIP proposal. As explained below, AARP urges that the SSIP proposal be rejected and that the utility be ordered to continue to prudently prioritize and invest in line replacement safety projects and have those projects reviewed in the traditional manner. MDU failed to meet its burden to show that the current rate case system is inadequate to support the

³ The System Safety & Integrity Program Adjustment Mechanism; MDU's Post-Hearing Brief, pp.7-10.

utility's efforts to continue to provide safe and adequate service. Thus, it would be unreasonable to allow MDU to bypass the thorough rate review that occurs in a full rate case, where all relevant cost of service inputs can be examined at the same time.

AARP appreciates the opportunity that the Commission provides in these rate cases for its individual members to speak at local hearings to share their stories and perspectives on the rates that they must pay in order have essential utility services. We ask that the Commission keeps those customers in mind as this rate case is resolved. Many older customers live on fixed incomes with little hope that their income might increase as much as their utility rates. The only thing that many of these older customers can do to control their monthly expenses is to engage in energy conservation. They deserve recognition for that effort.

SSIP SURCHARGE

MDU is proposing a new add-on surcharge, called the System Safety & Integrity Program Adjustment Mechanism ("SSIP"). The proposal includes an overly broad and vague description in a tariff called Rate 94.⁴ The proposed tariff states that the purpose of the surcharge would be to "recover the revenue requirement associated with the Company's additions and/or replacement of natural gas distribution facilities in compliance with *operational*, state, or federal pipeline safety programs deemed prudent by the Commission and not currently recovered through the Company's retail rates."⁵ The use of the word "operational" raises the concern that the scope of this surcharge could be

⁴ Original Sheet Nos. 37 and 37.1 of the proposed tariff.

⁵ Id., p. 1. [emphasis added].

so broad as to encompass nearly everything MDU does to operate and maintain its system.⁶

The tariff also does not explain the meaning of the words "not currently recovered"—this raises the specter that the tariff would be open to manipulation of other components of the revenue requirement without the ability of the Commission to credit ratepayers with offsetting reductions in those other components of the ratemaking formula. The proposed language of the SSIP is not narrowly tailored and subject to troublesome interpretations down the road. Through this entire case, including prepared and live testimony, MDU has failed to address these points raised by AARP regarding concerns about the language of the proposed tariff.

In its initial post-hearing brief, MDU makes several additional vague and unsupported statements about the SSIP. The Brief states "the SSIP would bring all the interested parties together in an effort to develop cost-efficient solutions" and that it "will create an open dialog before these projects even begin".⁷ First of all, there is nothing currently preventing MDU from talking with other parties about its pipeline replacement projects now. Secondly, AARP does not view the SSIP as a constructive way to discuss cost efficiency, since the surcharge would deny the ability of consumers to benefit from offsetting items and limit the scope of Commission inquiries. Thirdly, it is hard to trust that such "dialog" with other parties would be productive if MDU is not even able to discuss the issues raised in AARP's evidence regarding vagueness of its proposed language nor the fairness of single-issue ratemaking. The Commission should definitely avoid any new

⁶ Exhibit 41, pp. 37-38.

⁷ MDU's Post-Hearing Brief, pp. 8-9.

ratemaking scheme that contains controversial and confusing language regarding its scope and procedures.

Moreover, it is alarming that MDU is suggesting that it wants the Commission to “pre-approve” projects prior to it even making infrastructure investments. Pre-approval is inconsistent with the legal standards laid down by the U.S. Supreme Court case commonly known as Bluefield,⁸ because preapproval takes the foundation of cost of service ratemaking and turns it on its head. If a utility is guaranteed a profit, then the Commission is not properly balancing the interests of shareholders and ratepayers. The prevailing constitutional law allows a regulated utility the *opportunity* to earn a reasonable return, not a *guarantee* in advance. The utility and its shareholders are expected to make necessary investments, knowing that those decisions will be reviewed after the fact. It is not the ratepayers that should be forced to bear the risk of over-investment. Nor it is fair to allow the utility special recovery treatment on certain limited components from its balance sheet in isolation of other components that may lead to lower rates, preventing consumers from the benefit of declining components that could offset the increasing components.

Extra ratemaking components should only be allowed in emergency situations. For instance, if new safety requirements are imposed on a utility, it may be appropriate to allow the deferral of compliance costs until the next full rate case. But that type of remedy is a far cry from the Company's anti-consumer surcharge proposal in this case.⁹ MDU is proposing special treatment for a rather open-ended and undefined category of expenditures -- those associated with all pipeline safety programs (and perhaps

⁸ Bluefield Waterworks & Improvement Co. v. PSC, 262 U.S. 679.

⁹ Exhibit 41, p. 38.

"operational" programs as well), whether new or existing. That is, rather than being limited to expenditures that could not be anticipated or included in the test-year budget, the Company is suggesting that costs should be recoverable as long as the specific costs are "not currently recovered" in rates.¹⁰

MDU's claims that the SSIP mechanism would eliminate costly rate cases is not credible.¹¹ As far as it can be interpreted, the proposed SSIP tariff suggests that an annual miniature rate case would still occur in which all of its expenditures (capital investment, operations and maintenance expenses, taxes, etc.) would be examined by the Commission, but only for its hand-selected projects (and to the exclusion of issues that consumer advocates might wish to raise).¹² This SSIP proposal would create an extremely cumbersome process of miniature rate cases that is inconsistent with a proper and fair balancing of interests. As drafted, the SSIP proposal would create a lop-sided ratemaking process that would be tilted against consumer interests, all the while creating *more* regulation. If anything, ratemaking would become more expensive and complicated, while rates would likely to grow higher and faster than necessary, as declining ratemaking components are excluded from the surcharge.

Well-established ratemaking principles dictate that utility rates should be set based on a synchronized examination of all aspects of the utility's cost of service and sources of revenue, as well other considerations such as the quality of service and efficiency of management. That synchronization is the reason why we use a test year whenever a full

¹⁰ *Id.*

¹¹ MDU Brief, p. 8 ("The rate cases are very costly and time consuming . . .")

¹² Exhibit 41, p. 39.

rate case is filed. One treatise on utility regulation discusses this synchronization (or the “matching principle”) in this way:

If the utility proposes a change, particularly a major change, in the test year rate base, it is required also to consider the related changes in other costs or in revenue. Additional investments may result in efficiencies that reduce operating costs or quality improvements that will increase sales. Unless the utility shows that it has taken such matters into account, its revenue requirement is likely to be out of balance or overstated.¹³

The proposed SSIP surcharge tariff would be an exception to the matching principle because it would permit MDU to reflect increases in one element of its costs without also reflecting other associated changes that may occur. As we all learned this year with the large decrease to federal corporate tax changes under the Tax cut and Jobs Act of 2017, offsetting reductions can be substantially material.

Every year, utilities make numerous changes in their operations. Some of those changes save money and some of them cost more. The standard ratemaking process considers all of those changes in a synchronized examination of the utility’s operations.¹⁴ This fairness argument is just one reason to reject single-issue ratemaking that violates the matching principle, especially when it involves the most fundamental jobs of utility management—making safe and adequate investments in the infrastructure of its delivery system. Many things change between cases -- some costs increase while others decrease -- and spending on known safety concerns should be treated the same way as any other expenditure.¹⁵ If a utility believes that its tariffs are no longer adequate (overall), then the utility always enjoys the ability to file a new rate case.

¹³ Leonard Saul Goodman, *The Process of Ratemaking* (1998), vol. II, p. 735.

¹⁴ Exhibit AARP-41, p. 39.

¹⁵ Exhibit AARP-42, p. 9-10.

Perhaps the biggest concern about the SSIP proposal is MDU's misleading implication that a surcharge mechanism is somehow necessary before it can continue to promote pipeline safety. As an integral part of the regulatory compact for a monopoly utility, MDU has always been required by law to provide safe and adequate service.¹⁶ MDU claims that its operations are currently safe and adequate.¹⁷ AARP is not aware of any allegations that MDU has failed to meet this obligation in the past. A reasonable and measured approach to pipeline replacement that continues to adopt new technology is likely to be prudent; however, adopting an anti-consumer SSIP surcharge scheme itself would not make consumers any safer. The utility should absolutely take a proactive approach to its pipeline safety, but it should not need a bribe to do so. MDU will be sufficiently compensated for its prudent investment in pipeline replacements; it does not need extra rate recovery in order to perform those fundamental core responsibilities towards safety. A complicated fast-track surcharge itself is not relevant to maintaining safety; that would only be relevant to giving MDU an unfair advantage in the ratemaking process.

At the evidentiary hearing, MDU witnesses acknowledged the distinction between a pipeline replacement program and a surcharge recovery process. Operational plans for replacing aging pipelines do not require a single-issue surcharge scheme. MDU CEO Kivisto acknowledged that such a program is not needed in order for MDU to prudently replace aging pipes.¹⁸ MDU main witness on the SSIP proposal, Mr. Darras, stated that

¹⁶ N.D.C.C. Chapter 49-05.

¹⁷ Transcript p. 77.

¹⁸ Transcript p. 80.

the operational plans for pipe replacement will continue regardless of whether the utility is granted a special surcharge:

Q. Is there anything in your testimony about the way you would operationally approach main replacements that you would do differently if the Commission did not approve an SSIP mechanism? Operationally.

A. Today I would say probably not, because I'm fairly comfortable with the way the plan stands today. But that could change tomorrow based on an unfortunate incident or something. So, today's plan as submitted, yes, it would stay the same.¹⁹

The American Gas Association ("AGA") study offered by MDU listed a variety of special mechanisms adopted in other states.²⁰ However, that study did not find that states with an infrastructure surcharge mechanism have any safer infrastructure than states with a traditional rate recovery process.²¹ Most of the mechanisms featured in the AGA study contained consumer protections, such as requirements to routinely file full rate case audits or which impose rate caps on surcharge recovery. No such consumer protections are included in MDU SSIP proposal.

The National Association of State Utility Consumer Advocates ("NASUCA") believes strongly that mechanisms such as the proposed SSIP can cause significant harm to consumers. In its Resolution 2005-03, it urges public utility commissions to reject such surcharge and tracking mechanisms for infrastructure replacement.²² This NASUCA resolution expounds upon the unnecessary economic burden that such programs can

¹⁹ Transcript pp.185-186.

²⁰ Exhibit MDU-9.

²¹ Transcript p. 80.

²² Exhibit AARP-43.

have on consumers, due to the way such mechanisms can deny or delay the recognition of “offsetting contemporaneous cost reductions”.²³

Other jurisdictions have rejected extra infrastructure surcharge mechanisms for energy companies. A surcharge proposal (that resembles MDU’s SSIP proposal) was offered by Duke Energy Progress, and recently rejected by the North Carolina Utilities Commission (“NCUC”). On June 22, 2018, the NCUC rejected a grid modernization proposal labeled as the “Power Forward” program, that had been touted as supporting so-called “smart” and “resilient” infrastructure replacement.²⁴ The North Carolina utility regulator rejected that program’s attempt to impose a single-issue infrastructure surcharge on energy consumers for Duke Energy through an annual mini-rate case proceeding (similar to MDU’s SSIP proposal).²⁵ The NCUC determined that much of Duke Energy’s planned investment was important, but that replacing infrastructure is a normal part of the utility’s daily responsibilities, and thus should *not* be treated as an extraordinary event that justified imposing extraordinary charges on consumers.²⁶ In its decision, the NCUC cited the testimony of its staff testimony that the surcharge proposal would have allowed the utility to “over-earn”, and that single-issue ratemaking “upsets the regulatory balance”, because it would relax the incentives that currently restrain cost increases, and would require the regulator to devote “precious resources to eliminate any imprudent or unreasonably large costs”.²⁷

²³ *Id.*, p. 1.

²⁴ Order Accepting Stipulation, Deciding Contested Issues, and Requiring Revenue Requirement, Docket No. E-7, SUB 1146, et al, June 22, 2018.

²⁵ *Id.*, pp. 142-148.

²⁶ *Id.*, p. 124-127.

²⁷ *Id.*, p. 134.

ALLOWED RETURN ON COMMON EQUITY

AARP supports the positions of the Commission Staff and of the Federal Executive Agencies ("FEA") to reject MDU's proposed return on common equity ("ROE") allowance of 10.0%. MDU's proposed ROE is clearly bloated an excessive given the comparable earnings of similar energy companies. This is the largest issue impacting the amount of the overall increase to residential customers in this rate case, and essentially equates to the profit that is permitted by the monopoly gas company.

Moreover, the record supports a much lower ROE allowance if in fact the Commission adopts the SSIP surcharge proposal. The SSIP proposal would dramatically reduce MDU's regulatory risk, while shifting that risk to residential consumer rates, and thus would justify a specific downward adjustment beyond what Staff and the FEA have recommended. AARP believes that the inter-relationship of risk and reward with extraordinary mechanisms should be recognized in the Commission's final order regarding the ROE issue.

RESIDENTIAL BASIC CUSTOMER CHARGE

Iconic Professor James Bonbright outlined the primary goals of utility rate-setting and they remain valid today. Professor Bonbright posited that there were eight attributes of a sound rate design which could be grouped together into the following "primary criteria": (a) collection of the revenue requirement, (b) fairly apportioning the revenue requirement among different types of customers, and (c) encouraging the efficient use of the utility service (or, conversely, discouraging inefficient consumption).²⁸ The fairness principle is described

²⁸ James C. Bonbright, *Principles of Public Utility Rates* (Columbia Univ. Press, 1961), pp. 290-292.

as follows: "the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service." The efficiency principle is designed to "discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received."²⁹

A reasonable rate design, therefore, must achieve a balance of many goals. The proposal to place 100% of any increase to the residential customer class into a fixed customer charge is not balanced. Rather it is the most extreme form of setting residential rates. AARP is advocating for bringing the current rate structure back into a more balanced approach between fixed charges and volumetric charges for the delivery of natural gas.

MDU performed a class cost of service study ("COSS" or "CCOSS") in this case which is found in Statement M of the Company's filing contains an embedded class COSS for the projected 2018 test year. AARP witness Mr. Rubin did not agree with various assumptions and methodologies in the COSS with regard to the allocation of revenue requirement to the customer classes; however, most of those differences do not seem to have had a significant effect on the results of the study.

The main error identified by Mr. Rubin relates to where the Company's allocation of distribution mains.³⁰ The particular issue is significant because distribution mains represent almost 50% of the Company's rate base: \$66,985,000 in net plant out of a total rate base of \$135,451,000. MDU classified distribution mains as being 25% customer-related and 75% demand related. This classification of distribution mains is not

²⁹ *Id.*; Exhibit AARP-41, pp. 5-6.

³⁰ Exhibit AARP-41, p. 10.

standard within the industry.³¹ Some jurisdictions use a "basic customer" or "basic system" approach that treats as customer-related only costs associated with metering, the service line, billing, and customer service. AARP and Mr. Rubin generally support this method.³² The use of any type of "minimum system" analysis is controversial. MDU's analysis is based on the current cost of installing gas mains, not the actual cost of its system. MDU's actual system, not some hypothetical brand-new system, is the cost we're trying to classify. The Company's analysis shows a total cost of \$256,278,752, but the Company's records show that the total gross plant value of its gas mains (that is, the original construction cost before depreciation) is only \$103,231,000.³³ MDU's use of a current replacement cost does not comply with the *NARUC Gas Manual* requirements for a minimum size analysis.³⁴

AARP witness Mr. Rubin recommends the use of the basic customer method for classifying distribution-system costs. Under that approach, as explained in the *NARUC Gas Manual*, all costs associated with meters, meter reading, service line, billing, and customer service are classified as 100% customer-related, while all other distribution-system costs, including mains, are classified as 100% demand-related. This method recognizes that even the smallest size utility facility has a demand carrying capability and is sized based on demand considerations. Rather than pretending that some of these facilities have no demand component, the basic customer method represents a reasonable compromise to classifying and allocating costs among all customers fairly.

³¹ *Id.*

³² *Id.*

³³ MDU Statement M, p. 5.

³⁴ Exhibit AARP-41, p. 15; *NARUC Gas Manual*, p. 22.

In the alternative, Mr. Rubin calculated the effect of using a more accurate minimum system estimate of the customer-related portion of distribution mains in the COSS. While he does not support the use of a minimum-size analysis, if the Commission determines that the minimum-size approach is appropriate, then he believes that the analysis must be performed properly. As I showed in SJR-3, he shows that a proper analysis would conclude that **no more than 18.16% of the cost of distribution mains is customer-related**, with the remainder being demand-related.³⁵ Even this understates the demand-related costs because even a system composed entirely of 0.75-inch mains would have some demand carrying capability.³⁶

MDU's existing (permanent) residential rate is a flat charge of \$0.6443 per day. There is currently no element of the distribution rate that is based on the amount of gas consumed or demanded by the customer. MDU is proposing that no consumption-based distribution charge be included to recognize the demand factors of delivering gas to residential customers. This approach is unsupported by any study on the record, and it completely ignores facts that all parties acknowledge.

The Company's proposed residential rate design is not consistent with the results of its cost-of-service study, and it does not reflect a fair allocation of costs among residential customers with different demand and consumption characteristics, and does nothing to encourage the efficient use of natural gas (or to discourage the inefficient use of gas).³⁷ Under MDU's residential rate design proposal, all low usage customers and high usage customers, as well as all efficient and inefficient users, would pay the exact

³⁵ Exhibit AARP-41, p. 19, SJR-3.

³⁶ *Id.*

³⁷ Exhibit AARP-41, p. 25.

same amount of additional rate increase as a result of this case. As such, the proposed rate design violates two of Bonbright's fundamental principles of rate design: the fairness and efficiency principles.

Mr. Rubin calculated the impact of charging lower-use residential customers more than the cost to serve them and charging higher-use residential customers less than the cost of service. In response to AARP data request 1.12, MDU provided actual billing data for each residential customer for calendar year 2016. Mr. Rubin's analysis of that data is found in SJR-7 of Exhibit AARP-41. While the overall data suggests that the average residential customer uses 91 dekatherms per year, the actual distribution of consumption is quite diverse. Fully 70% of full-year residential customers use less than the average. At the lowest usage levels, 10% of customers use less than 39 Dk per year. At the other extreme, the largest 10% of residential gas users consume more than 123 Dk per year. This significant diversity of usage among customers within the residential class shows that the Commission's decision on this rate design issue will have very real consequences for customers. Customers who use much less than the class-average amount of gas would pay higher bills if revenues are collected through fixed charges and lower bills if revenues are collected through a combination of fixed charges and consumption charges; and the reverse is true for higher-use customers.³⁸

The cost studies show that between 25% and 36% of the residential class's costs are related to the class's peak demand, even under the Company's CCOSS analysis. Thus, under the Company's proposed residential rate structure, low-use customers would pay more than \$50 per year in excess of the cost of serving them and higher-use

³⁸ Exhibit AARP-41, p. 27.

customers would receive a subsidy of \$30 per year or more.³⁹ It is an inconvenient fact for MDU's proposal that some residential customers who use large amounts of gas and are demonstrably more expensive to serve than smaller users of gas.

While it is likely that there are AARP members in MDU's service territory of all income levels and gas usage levels, the smallest users of natural gas who do not qualify for low-income assistance are likely to include retirees on fixed incomes with only one person in the household.⁴⁰ Mr. Rubin's SJR-10 shows the 2009 Residential Energy Consumption Survey (RECS) conducted by the U.S. Department of Energy. The data show that one-person households that are not living in poverty are likely to use far less natural gas than other residential households. According to the data for this region of the country (Iowa, Minnesota, North Dakota, and South Dakota), a retired person living alone with an income above 150% of the poverty level is likely to use only 68,400 cubic feet of natural gas per year. This compares to residential gas users with two or more people in the household and incomes above 150% of the poverty level who average 90,000 cubic feet (90 Dk) per year, which is nearly identical to MDU's average residential usage. Thus, the one-person retiree's average gas usage is only about 3/4 of the gas usage of an average residential household. Yet, MDU's rate design would charge those two customers exactly the same amount for gas distribution service. That would not be a fair nor reasonable rate design.

Mr. Rubin recommends that the residential customer charge should not be increased in this case. AARP agrees and recommends that any residential rate increase resulting from this rate case be allocated to through a consumption charge. Given MDU's

³⁹ Exhibit AARP-41, p. 28.

⁴⁰ SJR-10 to Exhibit AARP-41; See also pp. 32-33.

own COSS results, AARP would prefer to see the Commission reduce the customer charge, but that could result in significant bill increases for higher-use residential customers, especially customers with large families. For now, it would be enough to simply bring a small amount of balance back to residential rates.

The Company's own COSS claims that the actual customer-related cost is \$18.13 per residential customer per month. Thus, the **existing** customer charge already exceeds the customer-related unit cost of service under **proposed** rates under any of the cost studies presented in this case.

It is important that rates reflect at least some of the acknowledged dynamic shown from the data is represented in rates by collecting demand-related and energy-related costs in proportion to each customers' energy consumption. This is important both as a matter of fairness and efficiency. Fairness requires that customers who cause more costs to be incurred and allocated to their class should pay more than customers whose usage patterns result in lower costs for the class. Moreover, efficiency requires that customers should pay rates that reflect the increased costs associated with increased consumption.⁴¹ Higher demands result in higher costs for the class and the principle of efficiency suggests that rate design should reflect that fact. MDU would have the Commission ignore its own evidence and proceed to set residential rates in a manner that glosses over these significant facts.

AARP urges the Commission to carefully review the evidence and adopt at least some compromise that moves rates back towards a more reasonable approach which

⁴¹ Exhibit AARP-41, p. 34.

gives low usage customers some level of protection, which fairly acknowledges the CCROSS data, and which gives customers more control over their monthly bills.

CONCLUSION

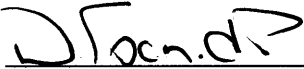
WHEREFORE, consistent with the arguments presented in this Brief, AARP respectfully recommends that the Commission grant a revenue requirement in this case no higher than is justified based upon MDU's burden of proof. On rate design issues, AARP recommends that the Commission adopt the following positions in its final Order:

- 1) Reject the SSIP surcharge tariff, and
- 2) Bring the rate design within the residential customer class into greater balance by applying any rate increase to that class through a volumetric usage component, rather than adding 100% of any gas delivery rate increase to the already bloated fixed customer charge, which is inconsistent with MDU's cost of service study;

Respectfully Submitted,

/s/ John B. Coffman

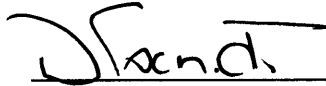
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CERTIFICATE OF SERVICE

I hereby certify that the original and seven (7) copies of the foregoing was hand delivered to the Secretary of the North Dakota Public Service Commission, with a complete copy thereof mailed to **all parties of record** on this 19th day of July, 2018.

A handwritten signature in black ink, appearing to read "D. Tschider", written over a horizontal line.

David A. Tschider