



UTILITIES CO.

A Subsidiary of MDU Resources Group, Inc.

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

January 27, 2020

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

Re: Gwinner Pipeline Expansion Update
Case No. PU-17-346

Montana-Dakota Utilities Co. (Montana-Dakota), herewith submits an informational update to the North Dakota Public Service Commission (Commission) regarding the Company's Gwinner Pipeline Expansion Project (Gwinner Pipeline). As further explained below, no change in the Capacity Reservation Charge under Rate 75 is being requested.

Bobcat Facility Background

On March 31, 2017 in Case No. PU-17-144, Montana-Dakota filed an application for a Certificate of Public Convenience and Necessity (CPCN) to construct and operate a natural gas distribution system to serve portions of Ransom and Sargent counties in North Dakota. Montana-Dakota also requested Commission approval of a Gas Transportation Agreement with Clark Equipment, d/b/a/ Bobcat Company (Bobcat), in order to provide transportation service to Bobcat's facilities in Gwinner, North Dakota using the new facilities. The estimated project cost was \$13.8 million to be recovered over the term of the 15-year agreement, reflecting an estimated Bank of North Dakota financing rate of 2.3 percent and the effective tax rates at that time.

On June 16, 2017, the Commission approved the Company's request with the issuance of Certificate No. 5903 and the Bobcat Gas Transportation Agreement.

Rate 75 Background

On September 7, 2017 in Case No. PU-17-346, Montana-Dakota filed an application to implement a Capacity Reservation Charge, designated as Gwinner Pipeline Capacity Reservation Charge Rate 75 (Reservation Charge or Rate 75), to be applicable to all customers requesting natural gas service from Montana-Dakota where service was to be provided off of the Gwinner Pipeline.

A portion of the amount collected under Rate 75 would be credited back to Bobcat based on the annual quantities reserved by other customers. The remainder of the

Rate 75 revenues would be credited to the total cost of the project providing the opportunity to reevaluate the minimum Contract Demand Charge applicable to Bobcat over the course of the 15-year term of the Bobcat contract. This methodology provided a fixed charge rate to offer to customers while providing a benefit to Bobcat and all other customers connecting to the Gwinner Pipeline. Upon completion of the project, Montana-Dakota would submit an updated Rate 75 tariff reflecting a true-up to actual construction costs.

On November 29, 2017, the Commission approved the Company's request to implement Gwinner Pipeline Capacity Reservation Charge Rate 75.

Gwinner Pipeline Update

On September 1, 2018, Bobcat commenced transportation service at its Gwinner facility. Over the course of the next twelve months, Montana-Dakota worked in collaboration with the communities of Gwinner and Milnor North Dakota to further customer interest in the Gwinner Pipeline and to enter into gas service agreements in order to effectively and efficiently map out the outlay of gas service into these two communities. On June 18, 2019, the first Rate 75 customer cut into service. As of November 2019, there were 123 gas service customers billed the Rate 75 rider in the communities of Gwinner and Milnor and along the pipeline route, reflecting 699 Dk of additional demand.

Montana-Dakota recently completed the project's true-up to actual construction costs. Actual construction costs came in at \$13,999,802, a difference of \$199,802 when compared to the estimated construction costs of \$13.8 million, or 1.4 percent over the Company's estimated cost used in the determination of Rate 75's Capacity Reservation Charge. While the final project cost came in higher than the estimated cost, two factors helped mitigate the increase (1) a project financing interest rate lock at 2.1 percent for the first five years of the project as compared to the estimated interest rate of 2.3 percent and (2) a lower effective tax rate resulting from the passage of the Tax Cuts and Jobs Act of 2017. As shown in Exhibit 1, the actual project costs would have increased the monthly Capacity Reservation Charge to \$26.93 per monthly Contract Demand Dk, but when coupled with the lower interest rate and a reduction in the corporate tax rate, the actual monthly Capacity Reservation Charge is \$25.95 per monthly Contract Demand Dk. This amounts to a change in Rate 75's Capacity Reservation Charge of (\$0.62) per monthly Contract Demand Dk from that authorized.

Given the minimal change in the rate and the benefit of maintaining a stable charge during this phase of the project, Montana-Dakota is not requesting to change Rate 75's Capacity Reservation Charge of \$0.8712 per day for residential customers and \$26.50 per contract demand Dk for all other customers. The minimal additional revenue collected annually will serve to shorten the time necessary to charge a minimum bill under the Bobcat agreement and the Rate 75 charge for pipeline cost recovery.

Please contact me at (701) 222-7856 or at Tamie.Aberle@mdu.com with any questions regarding this filing.

Sincerely,



Tamie A. Aberle
Director of Regulatory Affairs

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Gwinner Pipeline Project Status for Twelve Months Ended August 31, 2019 (Year 1)

Project parameters	Project Estimate	Project Actual	Cost Increase
Actual Cost	\$13,800,000	\$13,999,802	\$199,802
Total system capacity (dk/day)	10,000		
Annual \$/MDQ Total System Capacity	\$95.64		
Monthly \$/MDQ Total System Capacity	\$7.97		
Bobcat % of System capacity	30.0%		

Bobcat Contract	Estimated Project			Year 1 Cost	Total
	Yr. 1-5	Yr. 6-10	Yr. 11-15	True-Up 1/	True-Up 2/
Monthly Contract Demand	\$79,700	\$74,000	\$65,058	\$80,783	\$77,854
Annual Contract demand (revenue requirement)	\$956,400	\$888,000	\$780,696	\$969,400	\$934,250
Annual dk	185,000	186,765	186,765	186,765	186,765
Contract MDQ	3,000	3,000	3,000	3,000	3,000
Annual Contract Demand \$/MDQ	\$318.80	\$296.00	\$260.23	\$323.13	\$311.42
Monthly Contract Demand \$/MDQ	\$26.57	\$24.67	\$21.69	\$26.93	\$25.95
Change in Monthly Contract Demand \$/MDQ				\$0.36	(\$0.62)

Bobcat Gwinner Project Tracking		Project Rev Req	Bobcat MDQ	Additional MDQ	Total MDQ	Bobcat Monthly	Bobcat Annual	Rate 75 Annual Rev at Current Rate	Cumulative Revenue	Over/Under Recovery
Year 1 (ending 8/31/19)	Actual	\$934,250	3,000		3,000	\$79,700	\$956,400	\$3,498	\$959,898	\$25,648
Year 2	Projected	934,250	3,000	699	3,699	64,639	775,668	222,841	1,958,407	64,259
Year 3	Projected	934,250	3,000	943	3,943	64,639	775,668	300,628	3,034,703	142,046
Year 4	Projected	934,250	3,000	943	3,943	64,639	775,668	300,628	4,110,999	142,046
Year 5	Projected	934,250	3,000	943	3,943	64,639	775,668	300,628	5,187,295	142,046
Year 6	Projected	888,000	3,000	943	3,943	56,302	675,628	279,128	6,142,051	66,756
Year 7	Projected	888,000	3,000	943	3,943	56,302	675,628	279,128	7,096,807	66,756
Year 8	Projected	888,000	3,000	943	3,943	56,302	675,628	279,128	8,051,563	66,756
Year 9	Projected	888,000	3,000	943	3,943	56,302	675,628	279,128	9,006,319	66,756
Year 10	Projected	888,000	3,000	943	3,943	56,302	675,628	279,128	9,961,075	66,756
Year 11	Projected	780,696	3,000	943	3,943	49,499	593,986	245,399	10,800,460	58,689
Year 12	Projected	780,696	3,000	943	3,943	49,499	593,986	245,399	11,639,845	58,689
Year 13	Projected	780,696	3,000	943	3,943	49,499	593,986	245,399	12,479,230	58,689
Year 14	Projected	780,696	3,000	943	3,943	49,499	593,986	245,399	13,318,615	58,689
Year 15	Projected	780,696	3,000	943	3,943	49,499	593,986	245,399	14,158,000	58,689
Total Project Contract Demand Rev Req		<u>13,014,730</u>								

1/ True-up of actual cost to estimate. No change in interest rate and tax rate.

2/ True-up of actual cost to estimate with change in interest rate and tax rate.

3/ With no change in Rate 75 Contract Demand Charge, additional amount collected from customers annually and reflected in over/under recovery of costs:

	Current Rate 75	Actual Rate	Additional Revenue
Year 2	\$222,841	\$217,680	\$5,161
Year 3	300,628	293,666	6,962
Year 4	300,628	293,666	6,962
Year 5	300,628	293,666	6,962
			<u>26,047</u>