



A Subsidiary of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
701-222-7900
www.montana-dakota.com

December 22, 2023

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.

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 October 2023, there were 252 gas service customers billed the Rate 75 rider in the communities of Gwinner and Milnor and along the pipeline route, reflecting 1,074 Dk of additional demand.

Gwinner Pipeline Update – Year 5

Pursuant to the terms of the Gas Transportation Agreement with Bobcat, Montana-Dakota is to (1) review the project annually and adjust Bobcat's monthly Contracted Demand Charge for the first ten years of the agreement to reflect additional contracted load from other customers and then annually thereafter only if the other customers' contracted loads exceed 5,000 dk and (2) adjust Bobcat's monthly Contracted Demand Charge in years 1, 6, and 11 to cover any increase or decrease in the interest rate applicable to the debt financing obtained by the Company to construct the facilities.

As August 31, 2023 marked the end of year 5, Montana-Dakota incorporated into this review a change in the interest rate for years 6 through 10. The updated financing rate is 3.55 percent, an increase from the 2.1 percent reflected in the actual project cost true-up completed in January 2020.

As shown in Exhibit 1, Montana-Dakota has opted to maintain the current annual pipeline revenue requirement of \$934,250 while decreasing the monthly Contracted Demand Charge paid by Bobcat to \$43,357 (or \$520,280 annually) and maintaining the current Rate 75 charges applicable to all other Gwinner/Milnor customers. While the overall revenue requirement of the project is now \$13,782,500, an increase of \$767,770 from the actual project cost's revenue requirement of \$13,014,730 due to an increase in the financing rate, the project's payoff is currently tracking ahead of schedule. This is primarily due to maintaining the same Contracted Demand Charge applicable to Bobcat since year 2 and the revenue received from all other customers served under Rate 75. As the Bobcat Gas Transportation Agreement warrants an annual review through year 10 and the adjustment of their Contracted Demand Charge, the Company is decreasing the monthly Contracted Demand Charge

applicable to Bobcat while maintaining the Rate 75 charges applicable to all other customers at the current level included on the rate schedule.

The Company is anticipating additional customer load coming online in year 6 that will further the recovery of the Gwinner Pipeline costs from all other customers and provide an additional opportunity to shorten the length of the payoff period from the initial timeframe of fifteen years. The Company will re-evaluate the Rate 75 charges at the time of the next financing rate review following year 10.

Please contact me at (701) 222-7855 or travis.jacobson@mdu.com with any questions regarding this filing.

Sincerely,

/s/ Travis R. Jacobson

Travis R. Jacobson
Director of Regulatory Affairs

Attachments

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Gwinner Pipeline Project Status for Twelve Months Ended August 31, 2023 (Year 5)

Project parameters	<u>Project Estimate</u>	<u>Project Actual</u>	<u>Cost Increase</u>
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	<u>Estimated Project (Attachment B of Agreement)</u>			<u>January 27, 2020 Update</u>		<u>Year 5 Review</u>	
	<u>Yr. 1-5</u>	<u>Yr. 6-10</u>	<u>Yr. 11-15</u>	<u>Year 1 Cost</u>	<u>Total</u>	<u>Update in Interest Rate</u>	
				<u>True-Up 1/</u>	<u>True-Up 2/</u>	<u>Yr. 6-10</u>	<u>Yr. 11-15</u>
Monthly Contract Demand	\$79,700	\$74,000	\$65,058	\$80,783	\$77,854	\$77,854	\$74,000
Annual Contract demand (revenue requirement)	\$956,400	\$888,000	\$780,696	\$969,400	\$934,250	\$934,250	\$888,000
Annual dk	185,000	186,765	186,765	186,765	186,765	185,000	185,000
Contract MDQ	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Annual Contract Demand \$/MDQ	\$318.80	\$296.00	\$260.23	\$323.13	\$311.42	\$311.42	\$296.00
Monthly Contract Demand \$/MDQ	\$26.57	\$24.67	\$21.69	\$26.93	\$25.95	\$25.95	\$24.67
Change in Monthly Contract Demand \$/MDQ				\$0.36	(\$0.62)		

Bobcat Gwinner Project Tracking	<u>Twelve Months Ending</u>	<u>Actual or Projected</u>	<u>Project Rev Req</u>	<u>Bobcat MDQ</u>	<u>Additional MDQ</u>	<u>Total MDQ</u>	<u>Bobcat Monthly</u>	<u>Bobcat Annual</u>	<u>Rate 75 Annual Rev at at Current Rate</u>	<u>Cumulative Demand Charge Revenue</u>	<u>Over/ (Under) Recovery</u>
Year 1	8/31/2019	Actual	\$934,250	3,000		3,000	\$79,700	\$956,400	\$3,498	\$959,898	\$25,648
Year 2	8/31/2020	Actual	934,250	3,000	727	3,727	64,639	850,973	231,143	2,042,014	147,866
Year 3	8/31/2021	Actual	934,250	3,000	921	3,921	64,639	775,668	292,929	3,110,611	134,347
Year 4	8/31/2022	Actual	934,250	3,000	945	3,945	64,639	775,668	300,356	4,186,635	141,774
Year 5	8/31/2023	Actual	934,250	3,000	1,074	4,074	64,639	775,668	341,075	5,303,378	182,493
Year 6	8/31/2024	Projected	934,250	3,000	2,387	5,387	43,357	520,280	760,976	6,584,634	347,006
Year 7	8/31/2025	Projected	934,250	3,000	2,387	5,387	43,357	520,280	760,976	7,865,890	347,006
Year 8	8/31/2026	Projected	934,250	3,000	2,387	5,387	43,357	520,280	760,976	9,147,146	347,006
Year 9	8/31/2027	Projected	934,250	3,000	2,387	5,387	43,357	520,280	760,976	10,428,402	347,006
Year 10	8/31/2028	Projected	934,250	3,000	2,387	5,387	43,357	520,280	760,976	11,709,658	347,006
Year 11	8/31/2029	Projected	888,000	3,000	2,387	5,387	41,210	494,524	760,976	12,965,158	367,500
Year 12	8/31/2030	Projected	888,000	3,000	2,387	5,387	41,210	494,524	760,976	14,220,658	367,500
Year 13	8/31/2031	Projected	888,000	3,000	2,387	5,387	41,210	494,524	760,976	15,476,158	367,500
Year 14	8/31/2032	Projected	888,000	3,000	2,387	5,387	41,210	494,524	760,976	16,731,658	367,500
Year 15	8/31/2033	Projected	888,000	3,000	2,387	5,387	41,210	494,524	760,976	17,987,158	367,500
Total Project Contract Demand Rev Req			<u>\$13,782,500</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.