



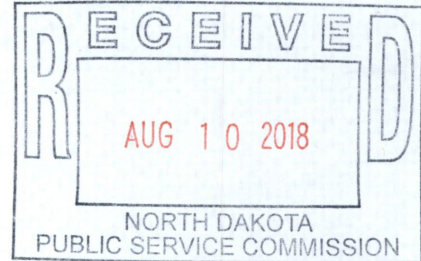
UTILITIES CO.

A Division of MDU Resources Group, Inc.

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

August 9, 2018

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



Re: Montana-Dakota Utilities Co.'s Application to Reduce Electric Rates to Reflect the Effects of the Tax Cuts and Jobs Act of 2017

Case No. PU-18-89 – Settlement Agreement

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., and the North Dakota Public Service Commission Advocacy Staff (Settling Parties) herewith submit an original and (7) copies of a Settlement Agreement in the above referenced case.

The Settlement Agreement represents a settlement of all outstanding issues between the Settling Parties regarding the Company's Application to update its electric retail rates in response to the Tax Cuts and Jobs Bill Act of 2017.

The Settling Parties request the Commission approve the Settlement Agreement and are available to provide additional information as required.

Sincerely,

Tamie A. Aberle
Director of Regulatory Affairs

Attachments

cc: Garret Senger
Karl Liepitz
John Schuh
Victor Schock

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Settlement Agreement

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
Tamie Aberle, Director of Reg. Affairs

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

Montana-Dakota Utilities Co.)	
Application to Reduce Rates to)	Case No. PU-18-89
Reflect the Effects of Tax Cuts and)	
Jobs Act of 2017)	

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"), and the Advocacy Staff of the North Dakota Public Service Commission ("Advocacy Staff"), (collectively the "Settling Parties"). The Settling Parties agree this Settlement Agreement, if approved by the Public Service Commission ("Commission"), would resolve all outstanding 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 electric service in North Dakota.

PROCEDURAL HISTORY

1. On January 10, 2018, the North Dakota Public Service Commission issued an Order Initiating Investigation to determine the effect of the Tax Cuts and Jobs Act of 2017 (Tax Reform) on Montana-Dakota and other jurisdictional utilities in Case No. PU-17-490.
2. On February 15, 2018, Montana-Dakota filed its initial comments regarding the effects of Tax Reform on its natural gas and electric rates in Case No. PU-17-490
3. On March 9, 2018, Montana-Dakota filed an Application to decrease its rates for electric service in North Dakota by an annual revenue amount of \$7,231,099,

representing a 3.9 percent decrease from current rates in response to Tax Reform and the Commission's January 10, 2018 Order issued in Case No. PU-17-490. Filed with the Application were revised tariffs and supporting statements. The Application was designated as Case No. PU-18-89 by the Commission.

4. On March 29, 2018 the Commission suspended the rates filed on March 9 and on April 25, 2018, the Commission issued a Notice of Opportunity for Hearing. Comments and requests for hearing were to be submitted by June 8, 2018. No comments or requests for a hearing were submitted to the Commission.

5. This 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. Change in Retail Rates. The Settling Parties agree to, and recommend the Commission approve, a decrease in Montana-Dakota's electric service rates for retail customers in North Dakota to yield an annual revenue decrease of \$8,436,006 effective upon a final Order in this proceeding. Supporting schedules are provided in Exhibit 1. This amount represents an overall decrease in retail rates, including base retail sales and the fuel and purchase power adjustment, of 4.5 percent. The change in electric retail rates reflects a recalculation of the revenue requirement, authorized in August 2017 in Case No. PU-16-666, to reflect the change in the tax rate from 35 percent to 21 percent of \$7,232,919 plus 75 percent of the plant related excess deferred income taxes of \$1,212,633 as adjusted for taxes or \$1,203,087. The remaining 25 percent of the 2018 plant related excess deferred income taxes will serve to support distribution infrastructure

projects such as underground cable systems installed before 1983 that are subject to a significantly higher failure rate than systems installed after 1983 and an LED change out for street lighting systems currently installed in approximately 100 North Dakota communities.

2. Non-Plant Related Excess Deferred Income Taxes. The Settling Parties agree to offset the deferred balances being collected from customers under the Environmental Cost Recovery Rider Rate 57 and the Generation Resource Recovery Rider Rate 56 with the total amount of non-plant excess deferred income taxes of \$1,778,283 as adjusted for income taxes equating to a revenue reduction of \$2,352,379. The Environmental Cost Recovery Rider deferred balance existing as of the date of the Order issued in this case will be eliminated entirely with the remaining dollars credited to the Generation Resource Recovery Rider. Based on balances as of June 30, 2018, the Environmental Rider Rate 57 balance and resulting rates will go to zero. The Generation Resource Recovery Rider will be reduced as shown below. In the event the Generation Resource Recovery Rider deferred balance is also fully offset at the time of Commission approval of this agreement any additional dollars will be applied to the Transmission Cost Adjustment Rate 59 deferred balance.

Generation & Environmental Rider Balances as of June 30, 2018		
	Total	Amount of Reduction
Generation	\$823,651	\$(666,967)
Environmental	1,685,412	(1,685,412)
	\$2,509,063	(\$2,352,379)

3. Revenue Allocation. The Settling Parties agree the decrease in retail rates

described in paragraph 1 will be allocated to the classes on an equal percentage basis in order to maintain the class revenue allocation authorized in Case No. PU-16-666 as shown in Exhibit 2. The Settling Parties further agree that the revenue decrease allocated to each rate class shall be applied to the energy component of each rate with the exception of Irrigation Service Rate 25 that will also reflect a decrease in the summer demand component.

4. Impact to Residential Customers. A Residential customer using 980 Kwh per month on average will see a decrease in their bills of \$5.49 or 5 percent reflecting the change in retail rates and the reduction in the deferred rider balances based on the estimates provided in Paragraph 2.

5. The parties agree that upon execution of this Settlement Agreement there are no outstanding issues related to Tax Reform or Case No. PU-17-490 with respect to Montana-Dakota's electric 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 Settlement 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. Rate Refund. Upon issuance of a Commission Order for new electric rates, the Company will determine the final amount to be refunded to customers subject to Advocacy Staff review and agreement. The amount to be refunded will be determined by applying the 4.5 percent percentage decrease in retail rates (including the fuel and purchase power adjustment) to the revenues collected for service provided beginning January 1, 2018 through the period ending with the implementation of new rates. The Settling Parties agree the Company shall issue a bill credit to customers, upon determination of the amount to be refunded, including interest at the three-month Treasury Bill rate as published by the Federal Reserve Board. 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.

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 electric rates. For these reasons, the Settling Parties urge the Commission to approve the Settlement Agreement.

Dated this 9th day of August, 2018.

MONTANA-DAKOTA UTILITIES CO.

By: Garret Senger

Its: Garret Senger
EVP - Regulatory Affairs,
Customer Service & Administration

Dated this 8th day of August, 2018.

**NORTH DAKOTA PUBLIC SERVICE
ADVOCACY STAFF**

By: John M. Schuh

Advocacy Staff Counsel

**MONTANA-DAKOTA UTILITIES CO.
INCOME STATEMENT
ELECTRIC UTILITY - NORTH DAKOTA
PROJECTED 2017 - BASE RETAIL RATES**

ADJUSTED FOR TCJA VS. AUTHORIZED

	TCJA Adjusted	PU-16-666 Authorized	Change
Operating Revenues			
Retail Sales (Base Only) 1/	\$178,407,642	\$186,843,648	(\$8,436,006)
Other	3,671,067	3,671,067	0
Total Revenues	<u>\$182,078,709</u>	<u>\$190,514,715</u>	<u>(\$8,436,006)</u>
Operating Expenses			
Operation and Maintenance			
Fuel & Purchased Power	\$54,243,161	\$54,243,161	\$0
Other O&M	53,324,432	53,324,432	0
Total O&M	<u>\$107,567,593</u>	<u>\$107,567,593</u>	<u>\$0</u>
Depreciation and Amortization	24,736,626	24,736,626	0
Taxes Other Than Income	5,934,298	5,934,298	0
Income Taxes	6,734,973	15,170,979	(8,436,006)
Total Expenses	<u>\$144,973,490</u>	<u>\$153,409,496</u>	<u>(\$8,436,006)</u>
Operating Income	<u>\$37,105,219</u>	<u>\$37,105,219</u>	<u>\$0</u>
Rate Base	<u>\$503,873,151</u>	<u>\$503,873,151</u>	<u>\$0</u>
Rate of Return	<u>7.364%</u>	<u>7.364%</u>	<u>0.000%</u>
Return on Equity	<u>9.650%</u>	<u>9.650%</u>	<u>0.000%</u>

1/ Revenue calculated prior to rate design.

**MONTANA-DAKOTA UTILITIES CO.
REVENUE INCREASE CALCULATION
ELECTRIC UTILITY - NORTH DAKOTA**

CALCULATION OF REVENUE REQUIREMENT INCREASE

	<u>Projected 2017</u>
<u>Authorized - PU-16-666</u>	
Net Pro Forma Rate Base	\$503,873,151
Overall Rate of Return	7.364%
Calculated Return on Rate Base	<u>\$37,105,219</u>
Total Pro Forma Operating Expenses	\$150,201,851
Total Pro Forma Revenue Requirement 1/ (less) Total Pro Forma Revenue Estimates	<u>\$187,307,070</u> <u>182,029,218</u>
Unadjusted Revenue Increase Estimate	\$5,277,852
Gross Up Factor 2/	1.607756
Authorized Revenue Increase	<u><u>\$8,485,497</u></u>
<u>Reflecting TCJA for 21% Tax Rate</u>	
Total Pro Forma Operating Expenses (Above)	\$150,201,851
Less: Reduction in Income Tax Expense (Page 3)	<u>5,240,439</u>
Total Pro Forma Operating Expenses	\$144,961,412
Total Pro Forma Revenue Requirement 1/ (less) Total Pro Forma Revenue Estimates	<u>\$182,066,631</u> <u>182,029,218</u>
Unadjusted Revenue Increase Estimate	\$37,413
Gross Up Factor 2/	1.322837
Adjusted Revenue Increase	<u><u>\$49,491</u></u>
Change in Revenue Increase	\$8,436,006

1/ Calculated Return on Rate Base plus Pro Forma Expenses.

2/ Calculated as 1 divided by the inverse of the tax rate.

**MONTANA-DAKOTA UTILITIES CO.
PRO FORMA INCOME STATEMENT
ELECTRIC UTILITY - NORTH DAKOTA**

**CALCULATION OF OPERATING INCOME - PRIOR
TO REVENUE INCREASE**

	Montana-Dakota Authorized Op. Income
<u>Authorized - PU-16-666</u>	
Revenue:	
Retail Sales Revenue	\$178,358,151
Other Revenue	3,671,067
Total Operating Revenue	<u>\$182,029,218</u>
Operating Expenses:	
Fuel & Purchased Power	\$54,243,161
Other O&M	53,324,432
Total Operating Expenses	<u>\$107,567,593</u>
Depreciation	24,736,626
Taxes Other Than Income	5,934,298
Current Income Taxes 1/	\$12,220,782
Deferred Income Taxes (So. Georgia)	(257,448)
Total Income Tax	<u>\$11,963,334</u>
Total Expenses	<u>150,201,851</u>
Net Operating Income	<u><u>\$31,827,367</u></u>
<u>Calculation of Income Tax (TCJA - 21% Tax Rate)</u>	
Pre-Tax Operating Income	\$43,790,701
Perms - AFUDC / Other	399,300
Interest Expense	(11,861,174)
Utility Operating Income - Pre-Tax	<u>\$32,328,827</u>
Income Tax Expense 2/	\$7,889,818
Excess DITs Plant (ARAM Method)-75%	(909,475)
Deferred Income Taxes (So. Georgia)	(257,448)
Total Income Tax	<u>\$6,722,895</u>
Net Operating Income (21% Rate)	<u><u>\$37,067,806</u></u>
Reduction in Income Tax Expense	\$5,240,439

1/ Calculated at 37.8015 percent effective rate.

2/ Calculated at 24.4049 percent effective rate.

MONTANA-DAKOTA UTILITIES CO.
ELECTRIC UTILITY - NORTH DAKOTA

Allocation of Revenues - PU-16-666
Reflecting TCJA

Customer Class	Authorized PU-16-666 Billing Determinants and Revenues				TCJA Change	
	Customers	Kwh	KW	Total Authorized Retail Revenues	\$	%
Residential Service	80,003	770,939,000		\$74,145,045	-\$3,345,621	-4.5%
Small General Service	11,867	117,869,000	17,553	12,930,742	-583,394	-4.5%
General Service	5,329	1,166,724,000	3,429,484	94,698,625	-4,283,499	-4.5%
Municipal Lighting	561	19,846,000		1,577,936	-71,230	-4.5%
Municipal Pumping	323	39,062,000	126,924	2,761,439	-124,802	-4.5%
Outdoor Lighting Service	2,604	7,437,000		725,862	-32,797	-4.5%
Total North Dakota Electric	100,687	2,121,877,000	3,573,961	\$186,839,649	(\$8,441,343)	-4.5%