

# Memorandum

To: Commissioners, Randy Christmann, Julie Fedorchak, and Brian Kroshus

From: Victor Schock - Public Utility Analyst 

Date: December 3, 2018

Re: Dakota Natural Gas, LLC, Natural Gas Service – Drayton, ND, Tariff and Rates  
Case No. PU-18-345

On September 12, 2018 Dakota Natural Gas, LLC (DNG) filed an application for approval of new tariff and rate schedules and a gas transportation agreement for its proposed service in Drayton, ND and its environs.

On November 15, 2018 DNG filed an amended tariff and rate book based on suggested changes from staff.

On November 20, 2018 the commission held an informal hearing on the case.

At the hearing staff agreed to complete its review of the case and inform the commission of its recommendations no later than December 4, 2018.

Staff has completed a thorough review of DNG's proposed tariff, rates and assumptions. Because DNG is a new natural gas utility in North Dakota all expenses, customer counts and usages are estimates with their basis being similarly sized communities in Minnesota currently served by DNG's family of companies. This makes the review unique to other tariff and rate cases processed by the commission, yet also made the proceeding less contentious. Staff recommended numerous changes to the tariff language and rate structure, all of which the company made without hesitation with the exception of the monthly facility fee for residential service.

During the informal hearing DNG asserted that their recommended \$8.50 monthly facility fee is more conducive to signing up a larger number of customers than a higher fee of \$19-20, and is consistent with their rate structure in Minnesota. A higher number of customers is beneficial to all customers because the infrastructure investment is spread over a larger customer base and is therefore less expensive per customer. Staff does not disagree with this premise, however an \$8.50 facility fee or basic service charge could be considered inconsistent with North Dakota's past preference of a straight fixed variable rate design for natural gas utilities. The possible range for this charge start at \$8.50 as DNG proposed up to a high of \$46.83, which represents a true straight fixed variable rate design. Adjusting the facility fee has the follow on impact of changing the distribution charge per Ccf, which must be considered as part of the overall rate design. During the informal hearing a reasonable range of \$8.50 to \$20 was discussed with no definitive

agreement at the conclusion as to the commissions preference. This issue will be further discussed during a work session on December 6, 2018 at 2:30 PM.

DNG is requesting a return on equity of 10%. Staff feels this is a reasonable rate for such a small natural gas utility that is just starting operations in the state. It would be appropriate to review this rate once the company has been in operation for 10-15 years.

Staff's analysis has found that the estimates used by DNG to generate the rate schedules are reasonable.

Staff recommends that the commission approve DNG's tariffs and rates as filed in DNG's Amended Gas Rate Book Tariff on November 15, 2008, with the exception of the monthly facility fee and distribution delivery rates for rate codes Residential - RS1 and Small Commercial - SCS1. The commissions final decision on the rate design will be included in the Order for this case. Staff also recommends approval of the Gas Transportation agreement between American Crystal Sugar and DNG filed on September 26, 2018.

Finally, staff recommends that DNG be required to file an annual reports with the commission per commission policy 5-05-97(0).

C: Kristine Anderson, DNG