

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Dakota Natural Gas, LLC
Natural Gas Service – Drayton, ND
Tariff and Rates**

Case No. PU-18-345

ORDER

December 13, 2018

Preliminary Statement

On September 12, 2018 Dakota Natural Gas, LLC (DNG) filed an application for approval of the tariff and rate schedule for its proposed natural gas service in Drayton, North Dakota and its environs.

On September 26, 2018, DNG filed an application for approval of a firm gas transportation agreement with American Crystal Sugar Company and an associated Application for Protection of Information.

On October 10, 2018, the North Dakota Public Service Commission (Commission) issued a Notice of Opportunity for Hearing providing until November 26, 2018 for receiving written comments or requests for hearing. No response or request for hearing was received.

The notice identified the following issues to be considered:

1. What is the value of DNG's property, used and useful, for the service and convenience of the public in North Dakota?
2. What is DNG's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?
3. What is a just and reasonable rate of return on DNG's property, used and useful, for the service and convenience of the public in North Dakota?
4. What rates and charges are necessary to provide a just and reasonable rate of return on DNG's property, used and useful, for the service and convenience of the public in North Dakota?
5. Are DNG's proposed rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?

On November 15, 2018, DNG filed an amended proposed tariff and rate schedule.

On November 20, 2018, the Commission held an informal hearing to discuss the matter in the Commission Hearing Room, State Capitol, 600 E. Boulevard Avenue, 12th Floor, Bismarck, North Dakota 58505.

On December 5, 2018, Commission Staff filed a memorandum in response to the Commission's Application for Protection of Information.

Discussion

DNG is a North Dakota limited liability company, authorized to provide natural gas distribution service to retail customers in North Dakota.

DNG is a new natural gas utility and does not have any existing facilities. DNG will construct facilities to serve the Drayton, ND area and its environs, along with a large commercial customer adjacent to the city (American Crystal Sugar Company). DNG anticipates beginning construction on the system in spring 2020 and completing construction by mid-late 2020.

DNG's anticipated customer count is based on DNG's review of the Drayton community. The expenses and usages are estimates based on similarly sized communities in Minnesota currently served by DNG's family of companies. The estimated value of DNG's property, to be used and useful for the service and convenience of the public in North Dakota, is \$3,666,835.

DNG recommended an \$8.50 monthly facility fee for residential and \$10.00 monthly facility fee for small commercial customers, asserting that the rate design would be conducive to converting new customers to natural gas service. DNG stated that the larger customer base would benefit all customers by spreading the infrastructure investment over a larger number of customers and be less expensive per customer.

Commission precedent has been to adjust the rate design of existing regulated natural gas utilities towards a straight fixed variable rate design upon request. While DNG's proposal is inconsistent with straight fixed variable rate design, a straight fixed variable design would result in a monthly fee of \$46.83 for residential customers, which would be cost-prohibitive for attracting conversion customers. During the informal hearing, DNG agreed that its business model could operate with a monthly service charge up to \$20. Staff also agreed that the combination of DNG being a new utility and a small utility provides an appropriate basis to approve a lower monthly fee and a departure from a complete straight fixed variable rate design.

DNG's firm gas transportation agreement with American Crystal Sugar Company was submitted for the Commission's consideration as required by DNG's proposed tariff. The agreement provides for a 15 year fixed rate for American Crystal Sugar Company's transport needs and provides terms for an extension of the contract by the parties. Staff reviewed the American Crystal Sugar firm transportation agreement, the fixed rate for the Order

length of the contract, and agreed that it is reasonable and does not result in undue discrimination.

DNG requested a 10% rate of return. As a small natural gas utility commencing operations, DNG's request is a just and reasonable rate of return for the estimated value of DNG's property, to be used and useful, for the service and convenience of the public in North Dakota, subject to continued monitoring by the Commission and possible future adjustment once operations are established.

Having considered this matter, the proposed rates and charges are necessary to provide a just and reasonable rate of return on DNG's property, used and useful, for the service and convenience of the public in North Dakota.

Based upon discussion with the DNG and Staff, the rate schedules are designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination with the exception of the facility fee and distribution delivery fees for Residential and Small Commercial.

On December 5, 2018, Commission Staff filed a memorandum stating the DNG's application satisfies the requirements of N.D. Admin. Code § 69-02-09-01 and may be exempted from disclosure pursuant to N.D.C.C. § 44-04-18.4 and recommended that the Commission grant the Application for Protection of Information.

Order

The Commission orders:

1. DNG's new tariff and rate schedule for its proposed natural gas service in the community and the environs of Drayton, North Dakota is approved, except for the Facility Fee per Month and the Distribution Charge per centum cubic feet (Ccf) for Residential – RS1 and Small Commercial – SCS1.

2. DNG's Facility Fee per Month and the Distribution Charge per centum cubic feet (Ccf) for Residential – RS1 and Small Commercial – SCS1 will be as follows:

	Facility Fee	Distribution Charge per Ccf
RS1	\$16.00	\$0.377
SCS1	\$16.00	\$0.377

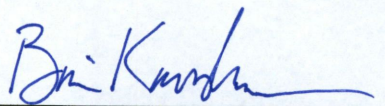
3. DNG shall file, for commission approval, compliance tariffs and rate schedules in accordance with this Order effective for service rendered on and after January 1, 2020.

4. DNG shall annually file a report with the Commission providing detailed financials and supporting information.

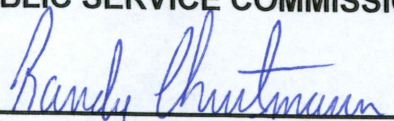
5. DNG's firm gas transportation agreement with American Crystal Sugar Company is approved.

6. DNG's Application for Protection of Information is granted.

PUBLIC SERVICE COMMISSION



**Brain Kroshus
Commissioner**



**Randy Christmann
Chairman**



**Julie Fedorchak
Commissioner**