

**STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION**

**Public Service Commission  
Montana-Dakota Utilities Co.  
2020 Natural Gas Rate Increase Application**

**Case No. PU-20-379**

**SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into by and between Montana-Dakota Utilities Co. (“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 expense, revenue, rate base, return, and rate design 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 gas service in North Dakota.

**PROCEDURAL HISTORY**

1. On August 26, 2020, Montana-Dakota filed an application to increase its rates for natural gas service in North Dakota to provide additional annual revenue of \$8,972,496, or a 7.80 percent increase over current rates. Filed with the Application were revised tariffs, direct testimony, exhibits and supporting statements.

2. Montana-Dakota concurrently submitted an Application and Notice for an interim increase in gas rates in the annual amount of \$6,893,176 to be effective January 1, 2021.

3. The Commission suspended Montana-Dakota’s general rate increase application by motion on September 23, 2020.

4. A Petition to Intervene was filed by AARP on November 3, 2020. On November 17, 2020, the Administrative Law Judge granted the petition to intervene of AARP.

5. On December 16, 2020, the Commission issued an Order approving an interim rate increase of \$6,893,176 to become effective for service rendered on or after January 1, 2021.

5. On January 6, 2021, the Commission issued a Notice of Public Input Sessions and Hearing, scheduling public input sessions for March 2, 2021, and scheduling the formal hearing for March 17, 2021.

6. On February 12, 2021, Montana-Dakota filed rebuttal testimony seeking to reduce its requested annual revenue requirement from \$8,972,496 to \$7,709,931.

7. Prior to the Hearing, settlement discussions were held between the Settling Parties pursuant to the Commission's Settlement Guidelines dated January 4, 1995. As a result of the settlement discussions, the Settling Parties reached this Settlement Agreement.

8. The 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. Overall Revenue Increase. The Parties agree to, and recommend the Commission approve, a net increase in Montana-Dakota's gas rates for retail customers in North Dakota to yield an annual revenue increase of \$6,886,091 effective upon a final order in this proceeding. This represents an overall increase in rates of 6.0%. The

change between the Company's request as amended in rebuttal and the amount agreed to herein is attributable to the following adjustments:

Montana-Dakota's Rebuttal Revenue Requirement	\$7,709,931
5-Year Average of Net Write Offs	(\$11,474)
Hettinger Franchise Fee	(12,878)
Return on Equity - 9.30%	(605,637)
50% of Incentive Compensation	(193,851)
Joint Settlement Agreement Revenue Requirement	<u>\$6,886,091</u>
Settlement Rate Base (Millions)	\$181.68

2. Return on Equity. The Parties agree to, and recommend the Commission approve, a return on equity of 9.30 percent effective upon a final order in this proceeding resulting in an overall rate of return of 6.851 percent based on the following capital structure:

Long Term Debt	42.370%	4.718%	1.999%
Short Term Debt	7.324%	2.378%	0.174%
Common Equity	<u>50.306%</u>	9.300%	<u>4.678%</u>
Total	<u>100.000%</u>		<u>6.851%</u>

3. Revenue Allocation. The Settling Parties agree to the following allocation of revenues resulting in an increase by rate class as described below.

<u>Customer Class</u>	<u>%</u>
Residential Service	10.1%
Firm General Service	1.8%
Air Force Delivery	2.0%
Small Interruptible	1.9%
Large Interruptible	0.7%
Overall	<u>6.0%</u>

Residential customers will receive an annual revenue increase of \$5,840,810. The average monthly increase for a residential customer will be \$5.06.

4. Residential Basic Service Charge. The Parties agree to, and recommend the Commission approve, that all revenue increases for the Residential Class be collected through an increase to the fixed basic service charge, which amounts to \$0.8523 per day or \$25.91 per month under Montana-Dakota's Residential Rate 60.

5. Incentive Compensation. The Settling Parties agree to, and recommend the Commission approve a reduction of \$193,851 from Montana-Dakota's requested requirement for incentive compensation.

6. Uncollectible Account Expense. The Settling Parties agree to, and recommend the Commission approve, a five-year average of Montana-Dakota's net write offs, which results in a reduction of \$11,474 from the amount Montana-Dakota requested in its Application.

7. Hettinger Franchise Fee. The Settling Parties agree to, and recommend the Commission approve, a reduction of \$12,878 from Montana-Dakota's revenue requirement representing the franchise fee charged by the City of Hettinger. Upon implementation of rates, the Hettinger franchise fee will be billed directly to Hettinger customers rather than as a component of the North Dakota gas operations revenue requirement.

8. Implementation of Great Plains Rates. The Settling Parties agree to, and recommend the Commission approve, that implementation of Phase II of rates for Great Plains' customers not occur until Montana Dakota's next filed rate case with the Commission.

9. Line Extension Tariff. The Settling Parties agree that Montana-Dakota will make a change to Firm Gas Service Extension Policy Rate 120(A)(2) changing the word "may" to "shall" in Section A(2).

#### **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 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. Interim Rate Refund. Interim rates in the amount of \$6,893,176 were implemented January 1, 2021. The Settlement Revenue Requirement, if approved, is \$6,886,091. On an annual basis, the difference would equate to approximately \$7,085. Assuming an April 1, 2021 effective date for final rates, Montana-Dakota will have over collected less than \$2,000 or a refund of approximately \$0.02 per customer. The cost of refunding will likely exceed the value of the refund. Therefore, the Settling Parties recommend no refund of the *de minimis* over-collection.

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.

G. Suspension. On September 23, 2020, the Commission approved a motion to suspend the rates filed in this case. The Settling Parties agree to suspend the rate, classification, contract, practice, or rule beyond the time it would otherwise go into effect, and beyond six months, pursuant to N.D.C.C. § 49-05-06 while the Commission considers this matter. Further, if the Commission's order modifies or declines this Settlement, the Settling Parties agree to extend the suspension until such time as these proceedings are concluded.

### **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 gas rates. For these reasons, the Settling Parties urge the Commission to approve the Settlement Agreement.

Dated this 11<sup>th</sup> day of March, 2021.

**MONTANA-DAKOTA UTILITIES CO.**

By: Harriet Senger

Its: EVP Regulatory Affairs

Dated this 11<sup>th</sup> day of March, 2021.

**NORTH DAKOTA PUBLIC SERVICE  
ADVOCACY STAFF**

By:  \_\_\_\_\_

Its: *Advocacy Staff Attorney  
Special Assist Attorney General  
Bar ID 07937*