

**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

UNANIMOUS SETTLEMENT AGREEMENT

This Unanimous Settlement Agreement is entered into by and between Montana-Dakota Utilities Co. ("Montana-Dakota" or "Company"), the Advocacy Staff of the North Dakota Public Service Commission ("Advocacy Staff") and AARP (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. On March 17 and 18, 2021, a public hearing was held as scheduled in the Commission Hearing Room in the State Capitol.

8. Subsequent to the public 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.

9. 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 Settling 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 Settling 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	50.306%	9.300%	4.678%
Total	<u>100.000%</u>		<u>6.851%</u>

The Settling Parties agree a 9.30 percent return on equity is well within a reasonable range of recently authorized returns on equity granted nationally and on an individual state basis as shown in Exhibit A of this Settlement Agreement.

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	8.4%
Firm General Service	3.7%
Air Force Delivery	2.7%
Small Interruptible	2.9%
Large Interruptible	0.9%
Overall	<u><u>6.0%</u></u>

Residential customers will receive an annual revenue increase of \$4,943,556. The average monthly increase for a residential customer will be \$4.21 for a Montana-Dakota residential customer and \$3.62 for a Great Plains residential customer. The allocation of revenue specified above is presented in more detail, along with the resulting rates, in Exhibit B of this Settlement Agreement.

4. Residential Basic Service Charge. The Settling 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 \$0.8244 per day or \$25.06 per month under Montana-Dakota's Residential Rate 60.

AARP is agreeable to this resolution of the residential rate design in consideration for the overall settlement reached in this case. AARP does not concede to “straight fixed variable” rate design as a matter of ratemaking policy, and it reserves the right to challenge such rate design methods in future rate cases.

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). In addition, Montana-Dakota and Advocacy Staff agree to collectively modify Rate 120 tariff in a way that mutually addresses the needs of the Company and ensures North Dakota natural gas customers are not subsidizing growth projects in Montana-Dakota’s service territory. The Company shall submit mutually agreeable tariff revisions no later than January 1, 2022.

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 May 1, 2021 effective date for final rates, Montana-Dakota will have over collected less than \$2,500 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 9th day of April 2021.

MONTANA-DAKOTA UTILITIES CO.

By: Garret Senger

Its: Garret Senger
EVP Regulatory Affairs

Dated this 9th day of April 2021.

**NORTH DAKOTA PUBLIC SERVICE
ADVOCACY STAFF**

By:  _____

Its: *Special Assistant Attorney General
for PSC*

Dated this 9th day of April, 2021.

AARP

By: John B. Coffman
Its: Attorney

Montana-Dakota Utilities Co.
Application for Increase in Natural Gas Rates
Case No. PU-20-379

Settlement Agreement

Authorized Return on Equity - Natural Gas

National Average

2020	9.46%
2019	9.71%

State Averages - 2020

Arizona	9.10%
Colorado	9.20%
Florida	9.90%
Kansas	9.40%
Massachusetts	9.77%
Maryland	9.63%
Maine	9.48%
Michigan	9.90%
New Jersey	9.60%
New Mexico	9.38%
Nevada	9.25%
New York	8.80%
Oregon	9.40%
Texas	9.65%
Utah	9.50%
Virginia	9.44%
Washington	9.40%
Wyoming	9.35%

Source: S&P Global

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Revenues Under Current and Proposed Rates
Projected 2021

Customer Class/Rate	Projected 2021 @ Current Rates			Proposed		
	Customers	Dk	Revenue	Total Revenue	Revenue Increase	Percent Increase
Residential - Rate 60	96,225	8,467,441	\$57,827,536	\$62,688,439	\$4,860,903	8.4%
Residential Wahpeton - GPNG Rate 65	1,900	152,038	890,868	973,521	82,653	9.3%
Total Residential	98,125	8,619,479	58,718,404	63,661,960	4,943,556	8.4%
Firm General - Rate 70	16,276	8,378,483	46,440,489	48,175,718	1,735,229	3.7%
Firm General - Wahpeton - GPNG Rate 65	427	141,162	753,726	781,872	28,146	3.7%
Total Firm General	16,703	8,519,645	47,194,215	48,957,590	1,763,375	3.7%
Air Force - Rate 64						
Firm	1	36,425	159,201	163,572	4,371	2.7%
Interruptible	2	396,550	1,137,554	1,168,485	30,931	2.7%
Total Air Force	3	432,975	1,296,755	1,332,057	35,302	2.7%
Small Interruptible						
Sales - Rate 71	87	514,844	2,103,283			
Sales - Wahpeton - GPNG Rate 71	17	229,181	947,310			
Transport - Rate 81	61	1,015,084	817,156			
Total Small Interruptible	165	1,759,109	3,867,749	3,980,124	112,375	2.9%
Large Interruptible						
Sales - Rate 85	0	0	0			
Sales - Wahpeton - GPNG Rate 71	2	563,030	2,246,366			
Transport - Rate 82	7	4,741,919	1,043,054			
Transport - GPNG Rate 80 Contract 1/	9	1,125,190	382,113			
Total Large Interruptible	18	6,430,139	3,671,533	3,704,223	32,690	0.9%
Total North Dakota	115,014	25,761,347	\$114,748,656	\$121,635,954	\$6,887,298	6.0%

1/ Currently GPNG has 1 transportation customer served under a contract. GPNG Rate 80 charges included on tariff will be the same as GPNG Rate 71.

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Rate Reconciliation
Residential Gas Service - Rates 60 & 90
Projected 2021

<u>Residential Rates</u>	<u>Billing Units</u>		<u>Current</u>		<u>Settlement</u>	
			<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
Basic Service Charge (60)	95,952	Customers	\$0.6860	\$24,025,421	\$0.8244	\$28,872,533
Basic Service Charge (90)	273	Customers	\$0.6860	68,356	\$0.8244	82,147
	<u>96,225</u>			<u>24,093,777</u>		<u>28,954,680</u>
Distribution Delivery Charge	8,467,441	dk	\$0.000	0	\$0.000	0
Cost of Gas (60)	8,450,493	dk	\$3.984	33,666,764	\$3.984	33,666,764
Cost of Gas (90)	16,948	dk	\$3.953	66,995	\$3.953	66,995
	<u>8,467,441</u>			<u>\$33,733,759</u>		<u>\$33,733,759</u>
Total Revenue Rates 60 & 90				<u>\$57,827,536</u>		<u>\$62,688,439</u>

**Montana-Dakota Utilities Co.
 Gas Utility - North Dakota
 Rate Reconciliation
 Air Force Firm Service - Rate 64
 Projected 2021**

<u>Air Force Rate 64 - Firm</u>	<u>Billing Units</u>	<u>Current</u>		<u>Settlement</u>	
		<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
Basic Service Charge	1 Customer	\$175.00	\$2,100	\$175.00	\$2,100
Distribution Delivery Charge	36,425 dk	\$0.329	11,984	\$0.449	16,355
Cost of Gas	36,425 dk	\$3.984	<u>145,117</u>	\$3.984	<u>145,117</u>
Total Revenue Rate 64			<u>\$159,201</u>		<u>\$163,572</u>

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Rate Reconciliation
Air Force Interruptible Service - Rate 64
Projected 2021

<u>Air Force Rate 64</u> <u>- Interruptible</u>	<u>Billing Units</u>	<u>Current</u>		<u>Settlement</u>	
		<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
Basic Service Charge					
Minot Air Force Base	1 Customer	\$2,000.00	\$24,000	\$2,000.00	\$24,000
PAR Site	1 Customer	\$175.00	2,100	\$175.00	2,100
	<u>2</u>		<u>26,100</u>		<u>26,100</u>
Distribution Delivery Charge	396,550 dk	\$0.177	70,189	\$0.255	101,120
Cost of Gas					
Minot Air Force Base	369,780 dk	\$2.625	970,673	\$2.625	970,673
PAR Site	26,770 dk	\$2.637	70,592	\$2.637	70,592
	<u>396,550</u>		<u>1,041,265</u>		
Total Revenue			<u>\$1,137,554</u>		<u>\$1,168,485</u>

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Rate Reconciliation
Firm General Gas Service - Rates 70, 72, 74, & 92
Projected 2021

Firm General Rates	Billing Units		Current		Settlement	
			Rate	Amount	Rate	Amount
Basic Service Chg Rates (70 Small)	11,127	Customers	\$0.70	\$2,842,949	\$0.75	\$3,046,016
Basic Service Chg Rates (72 Small)	5	Customers	\$0.70	1,278	\$0.75	1,369
Basic Service Chg Rates (74 Small)	18	Customers	\$0.70	4,599	\$0.75	4,928
Basic Service Chg Rates (92 Small)	67	Customers	\$0.70	17,119	\$0.75	18,341
Basic Service Chg Rates (70 Large)	5,025	Customers	\$2.05	3,759,956	\$2.13	3,906,686
Basic Service Chg Rates (72 Large)	11	Customers	\$2.05	8,231	\$2.13	8,552
Basic Service Chg Rates (74 Large)	16	Customers	\$2.05	11,972	\$2.13	12,439
Basic Service Chg Rates (92 Large)	7	Customers	\$2.05	5,238	\$2.13	5,442
	<u>16,276</u>			<u>\$6,651,342</u>		<u>\$7,003,773</u>
Distribution Delivery Charge (Excl Rate 74)						
Small	1,949,155	Dk	\$0.811	1,580,765	\$1.174	2,288,308
Large	6,156,438	Dk	0.811	4,992,871	0.917	5,645,454
Distribution Demand Charge						
74 Small	336	Demand Dk	\$6.510	2,187	\$8.000	2,688
74 Large	14,880	Demand Dk	\$6.510	96,869	\$8.000	119,040
				<u>99,056</u>		<u>121,728</u>
Cost of Gas (70 Small)	1,936,766	Dk	\$3.984	7,716,076	\$3.984	7,716,076
Cost of Gas (72 Small)	1,022	Dk	\$2.502	2,557	\$2.502	2,557
Cost of Gas (92 Small)	11,367	Dk	\$3.953	44,934	\$3.953	44,934
Cost of Gas (70 Large)	6,130,793	Dk	\$3.984	24,425,079	\$3.984	24,425,079
Cost of Gas (72 Large)	12,357	Dk	\$2.502	30,917	\$2.502	30,917
Cost of Gas (92 Large)	13,288	Dk	\$3.953	52,527	\$3.953	52,527
	<u>8,105,593</u>			<u>32,272,090</u>		<u>32,272,090</u>
Cost of Gas (74 Small)	24	Dk	\$2.502	60	\$2.502	60
Capacity Charge (74 Small)	336	Demand Dk	\$10.620	3,568	\$10.620	3,568
Cost of Gas (74 Large)	272,866	Dk	\$2.502	682,711	\$2.502	682,711
Capacity Charge (74 Large)	14,880	Demand Dk	\$10.620	158,026	\$10.620	158,026
				<u>844,365</u>		<u>844,365</u>
Total Revenue				<u>\$46,440,489</u>		<u>\$48,175,718</u>

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Rate Reconciliation
Small Interruptible Service - Rates 71 & 81
Projected 2021

Small Interruptible Service Rates 71 & 81	Billing Units	Current		Settlement	
		Rate	Amount	Rate	Amount
Basic Service Charge					
Rate 71 Sales	87 Customers	\$190.00	\$198,360	\$450.00	\$469,800
Rate 81 Transport	61 Customers	190.00	139,080	\$450.00	329,400
	148		337,440		799,200
Distribution Delivery Charge					
Rate 71 Sales	514,844 dk	\$1.063	547,279	\$0.566	291,402
Rate 81 Transport	1,015,084 dk	\$0.668	678,076	\$0.566	574,538
Cost of Gas	514,844 dk	\$2.637	1,357,644	\$2.637	1,357,644
Sales			\$2,103,283		\$2,118,846
Transport			817,156		903,938
Total Revenue			\$2,920,439		\$3,022,784

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Rate Reconciliation
Large Interruptible Service - Rates 82 & 85
(Excluding Flexed Contracts)
Projected 2021

Large Interruptible Service Rates 85 & 82	Billing Units	Current		Settlement	
		Rate	Amount	Rate	Amount
Basic Service Charge					
Rate 85 Sales	0 Customers	\$1,500.00	\$0	\$1,600.00	\$0
Rate 82 Transport	5 Customers	1,500.00	90,000	1,600.00	96,000
			<u>90,000</u>		<u>96,000</u>
Distribution Delivery Charge					
Rate 85 Sales	0 dk	\$0.718	0	\$0.237	0
Rate 82 Transport	774,189 dk	\$0.231	178,838	\$0.237	183,483
Cost of Gas					
	0 dk	\$2.637	<u>0</u>	\$2.637	<u>0</u>
Sales			\$0	\$0	
Transport			<u>268,838</u>	<u>279,483</u>	
Total Revenue			\$268,838	\$279,483	

**Montana-Dakota Utilities Co.
 Gas Utility - North Dakota
 Rate Reconciliation
 Firm Gas Service - GPNG Rate 65
 Projected 2021**

Wahpeton Firm Rates - GPNG Rate 65	Billing Units	Current		Settlement	
		Rate	Amount	Rate	Amount
Basic Service Charge					
Residential	1,900 Customers	\$3.50	\$79,800	\$0.250	\$173,375
Firm General					
Small < 500 CFH	282 Customers	\$3.50	11,844	\$0.250	25,733
Large > 500 CFH	145 Customers	\$3.50	6,090	\$0.250	13,231
	<u>2,327</u>		<u>97,734</u>		<u>212,339</u>
Distribution Delivery Charge					
Residential					
First 10 Dk	104,506 dk	\$1.0720	112,030		
Over 10 Dk	47,532 dk	\$0.8220	39,071		
	<u>152,038</u>		<u>151,101</u>	\$0.922	140,179
Firm General - Small					
First 10 Dk	12,900 dk	\$1.0720	13,829		
Over 10 Dk	52,132 dk	\$0.8220	42,853		
	<u>65,032</u>		<u>56,682</u>	\$0.922	59,960
Firm General - Large					
First 10 Dk	15,101 dk	\$1.0720	16,188		
Over 10 Dk	61,029 dk	\$0.8220	50,166		
	<u>76,130</u>		<u>66,354</u>	\$0.922	70,192
Cost of Gas (Residential)	152,038 dk	\$4.3408	659,967	\$4.3408	659,967
Cost of Gas (Firm General Small)	65,032 dk	\$4.3408	282,291	\$4.3408	282,291
Cost of Gas (Firm General Large)	76,130 dk	\$4.3408	330,465	\$4.3408	330,465
	<u>293,200</u>		<u>1,272,723</u>		<u>1,272,723</u>
Residential			\$890,868		\$973,521
Firm General Small			350,817		367,984
Firm General Large			402,909		413,888
Total Revenue GPNG Firm Rate 65			<u>\$1,644,594</u>		<u>\$1,755,393</u>

Montana-Dakota Utilities Co.
Gas Utility - North Dakota
Rate Reconciliation
Interruptible Gas Service - GPNG Rate 71
Projected 2021

Interruptible Service GPNG Rate 71	Billing Units	Current		Settlement	
		Rate	Amount	Rate	Amount
Basic Service Charge					
Annual Dk < 100,000	17 Customers	\$3.50	\$714	\$180.00	\$36,720
Annual Dk > 100,000	2 Customers	\$3.50	84	\$180.00	4,320
	<u>19</u>		<u>798</u>		<u>41,040</u>
Distribution Delivery Charge					
Annual Dk < 100,000					
First 400 Dk	50,615 dk	\$1.0160	51,425		
Next 2,600 Dk	118,783 dk	\$0.7675	91,166		
Over 3,000 Dk	59,783 dk	\$0.6140	36,707		
	<u>229,181</u>		<u>179,298</u>	\$0.669	153,322
Annual Dk > 100,000					
First 400 Dk	11,538 dk	\$1.0160	11,723		
Next 2,600 Dk	71,133 dk	\$0.7675	54,595		
Over 3,000 Dk	480,359 dk	\$0.6140	294,940		
	<u>563,030</u>		<u>361,258</u>	\$0.669	376,667
Cost of Gas					
Annual Dk < 100,000	229,181 dk	\$3.3480	767,298	\$3.3480	767,298
Annual Dk > 100,000	563,030 dk	\$3.3480	1,885,024	\$3.3480	1,885,024
	<u>792,211 dk</u>		<u>2,652,322</u>		<u>2,652,322</u>
Annual Dk < 100,000			\$947,310		\$957,340
Annual Dk > 100,000			2,246,366		\$2,266,011
Total Revenue - GPNG Interruptible Rate 71			<u>\$3,193,676</u>		<u>\$3,223,351</u>