STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co.
2023 Natural Gas Rate Increase Application

Case No. PU-23-341

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

November 7, 2024

Commissioners Randy Christmann, Julie Fedorchak and Sheri Haugen-Hoffart

Paul Sanderson, Montana-Dakota Utilities Co., 400 North 4th Street, Bismarck, ND 58505, appearing on behalf of Montana-Dakota Utilities Co.

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John M. Schuh, General Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, North Dakota 58505, appearing on behalf of the Public Service Commission Advisory Staff.

Hope L. Hogan, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street, Suite 303, Bismarck, North Dakota 58503, as Procedural Hearing Officer.

Preliminary Statement

On November 1, 2023, Montana-Dakota Utilities Co.(MDU) filed with the Commission an application for an increase in rates for natural gas service. MDU requested a rate increase of $11.640 million or 7.45 percent retail revenue increase for its provision of retail natural gas service in North Dakota.

Also on November 1, 2023, MDU filed an alternative petition for interim rates, requesting an interim rate increase of $10.094 million or 6.46% percent of retail revenues.

On November 29, 2023, the Commission suspended MDU's tariffs and rates.

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On December 13, 2023, the Commission approved MDU's proposed interim rates to be effective for service rendered on or after January 1, 2024.

On February 22, 2024, the Federal Executive Agencies (FEA) filed a Petition to Intervene, which was granted by the Administrative Law Judge (ALJ) on May 13, 2024.

On May 7, 2024, the American Association of Retired Persons (AARP) filed a Petition to Intervene, which was granted by the ALJ on May 13, 2024.

On July 8, 2024, the Commission issued a Notice of Public Input Sessions and Public Hearing indicating that it would conduct public input sessions on July 22, 2024, and a public hearing beginning on September 30, 2024. The Notice provided the following issues to be considered at the hearing:

1. What is the value of MDU's property, used and useful, for the service and convenience of the public in North Dakota?
2. What is MDU'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 MDU'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 MDU's property, used and useful, for the service and convenience of the public in North Dakota?
5. Are MDU's rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without undue discrimination?

On July 31, 2024, Advocacy Staff filed Direct Testimony identifying proposed adjustments on MDU's rate request and recommending a total rate increase of $4.255 million or 2.66 percent.

On September 16, 2024, MDU, AARP, the FEA and Advocacy Staff filed with the Commission a Settlement Agreement reflecting the parties' negotiated agreement on revenue requirements, class cost of service study, revenue apportionment, and rate design.

On September 30, 2024, the Commission held the public hearing, as scheduled.

Having allowed all interested persons an opportunity to be heard and having heard and considered all testimony and evidence presented, the Commission makes the following.

Findings of Fact

1. MDU is an investor-owned natural gas utility authorized to provide public utility service in North Dakota under the regulatory jurisdiction of the Commission.

2. The Settlement Agreement proposes an overall test year revenue increase in MDU's natural gas rates for retail customers of $9.443 million, or 6.05 percent. This agreed-upon amount represents a decrease of $2.189 million from the $11.640 million, or 7.45 percent, increase originally sought by MDU.

3. The Settlement Agreement includes the following adjustments to the revenue requirement.

a. Reduction to the ROE 60 basis points to 9.9 percent ($864,000).

b. Removal of cancelled or delayed projects ($171,000).

c. 50% reduction of incentive compensation ($1,060,000).

d. Postage and materials adjustment ($95,000).

e. Portal, ND project delay $1,000.

4. The Settlement Agreement includes an agreed upon return on equity (ROE) of 9.90 percent, which is 0.60 percentage points lower than the ROE initially proposed by MDU in its direct testimony.

5. The Settlement Agreement provides that MDU's actual capital structure of 50.185 percent common equity, 45.296 percent long-term debt, and 4.519 percent short-term debt is reasonable and appropriate.

6. The Settlement Agreement provides that all revenue increases for the Residential Class, excluding Wahpeton customers, be collected through a reintroduced volumetric charge of $0.525/dk, while leaving the Basic Service Charge at $0.8244 per day or $25.08 per month under Montana-Dakota's Residential Rate 60. For the Wahpeton residential class, the revenue increases will be collected through both an increase to the Basic Service Charge of $0.145 per day, which results in a total charge of $12.01 per month and a decrease in the Distribution Delivery Charge to $0.781 per dk under Montana-Dakota's Firm Gas Service – Wahpeton Rate 62. All other Basic Service Charges remain as proposed by the Company with the exception of the Basic Service Charge applicable to the Large Interruptible Class which was reduced to $1,800.00 per month.

7. The Settlement Agreement proposes a class revenue apportionment that assigns a 6.09 percent increase to the residential class, a 6.06 percent increase to the firm general class, a 6.08 percent increase to the small interruptible and air force delivery classes, and a 1.68 percent increase to the large interruptible class, compared to the overall increase of 6.05 percent.

8. Because the Settlement Agreement increase for 2024 is less than the interim increase that became effective January 1, 2024, the Settlement Agreement provides for a refund of excess interim rates collected by MDU. MDU proposes to file an interim rate refund plan subsequent to approval of the Settlement Agreement.

9. MDU, AARP and Advocacy Staff provided testimony in support of the Settlement Agreement.

10. The Settlement Agreement proposes that the revised rates and tariffs be effective November 1, 2024. At the public hearing on September 30, 2024, Montana-Dakota requested the effective date of the rates and tariffs be set to December 1, 2024. There was no objection to this request.

11. The Commission finds that the Settlement Agreement will result in just and reasonable rates without undue discrimination.

From the foregoing Findings of Fact, the Commission makes the following:

Conclusions of Law

1. The Commission has jurisdiction in these proceedings.

2. The Settlement Agreement provides a just and reasonable rate of return on MDU's property, used and useful, for the service and convenience of the public in North Dakota.

3. The rates proposed by the Settlement Agreement are designed to result in a basis of charge to customers that is just and reasonable without undue discrimination.

4. The Commission finds the Settlement Agreement is reasonable and provides just and reasonable resolution to all pending issues in this matter.

From the foregoing Findings of Fact and Conclusions of Law, the Commission makes the following:

Order

The Commission Orders:

1. The Settlement Agreement, a copy of which is attached to this Order, is adopted and approved in its entirety, with the exception of the effective date, which shall be for service rendered on or after December 1, 2024.

2. MDU shall file, for Commission approval, compliance rate schedules consistent with this Order within 30 days.

3. MDU shall file, for Commission approval, an interim rate refund plan within 30 days.

4. MDU shall study the impacts of increased volumetric charge in rate design on energy conservation and usage and provide an analysis in its next rate case application.

PUBLIC SERVICE COMMISSION

Sheri Haugen-Hoffart	Randy Christmann	Julie Fedorchak
Sheri Haugen-Hoffart **Commissioner**	**Randy Christmann** **Chair**	**Julie Fedorchak** **Commissioner**

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Montana-Dakota Utilities Co. **Case No. PU-23-341**
2023 Application for Increase Natural Gas Rates

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"), Intervenor AARP, and Intervenor Federal Executive Agencies ("FEA") (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 natural gas service in North Dakota.

PROCEDURAL HISTORY

1. On November 1, 2023, Montana-Dakota filed an application to increase its rates for natural gas service in North Dakota to provide additional annual revenue of $11,640,010, or a 7.45 percent increase over current rates based on a 2024 projected test period. 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 natural gas rates in the annual amount of $10,094,595.

3. The Commission suspended Montana-Dakota's general rate increase application by motion on November 29, 2023.

4. On December 13, 2023, the Commission issued an Order approving an interim rate increase of $10,094,595 to become effective for service rendered on or after January 1, 2024.

5. A Petition to Intervene was filed by the FEA on February 22, 2024. On May 13, 2024, the Administrative Law Judge granted the petition to intervene for the FEA.

6. A Petition to Intervene was filed by the AARP on May 7, 2024. On May 13, 2024, the Administrative Law Judge granted the petition to intervene for the AARP.

7. On July 8, 2024, the Commission issued a Notice of Public Input Sessions and Hearing, scheduling public input sessions for July 22, 2024, and scheduling the formal hearing for September 30, 2024.

8. On July 22, 2024, two public hearings were held as scheduled in the Commission Hearing Room in the State Capitol.

9. After 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.

10. 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 natural gas rates for retail customers in North Dakota to yield an annual revenue increase of $9,443,883 effective upon a final order in this proceeding. This represents an overall increase in rates of 6.05%. The change between the Company's requested revenue requirement and the amount agreed to herein is attributable to the following adjustments:

	In Thousands
Revenue Requirement - As Filed	$11,635
Return on Equity - Reduce from 10.5% to 9.9%	(864)
Remove Canceled or Delayed Projects	(171)
Incentive Compensation - 50% Reduction	(1,060)
Postage and Materials Adjustment	(95)
Portal, ND - Project Delayed	1
Revenue Requirement - Settlement	$9,446
Settlement Rate Base	$215,355

2. Return on Equity. The Settling Parties agree to, and recommend the Commission approve, a return on equity of 9.90 percent effective upon a final order in this proceeding resulting in an overall rate of return of 7.262 percent based on the following capital structure:

Long Term Debt	45.296%	4.569%	2.070%
Short Term Debt	4.519%	4.954%	0.224%
Common Equity	50.185%	9.900%	4.968%
Total	100.000%		7.262%

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

Customer Class	%
Residential Service	6.09%
Firm General Service	6.06%
Air Force Delivery	6.08%
Small Interruptible	6.08%
Large Interruptible	1.68%
Overall	**6.05%**

Residential customers will receive an annual revenue increase of $4,641,161. The average monthly increase for a Montana-Dakota residential customer will be $3.55 and $3.47 for a Wahpeton residential customer. The allocation of revenue specified above is presented in more detail, along with the resulting rates, in Exhibit A of this Settlement Agreement.

4. Basic Service Charge. The Settling Parties agree to, and recommend the Commission approve the collection of the revenue increase applicable to the Residential Class, excluding Wahpeton customers, be administered through a reintroduced volumetric charge of $0.525/dk, while leaving the Basic Service Charge at $0.8244 per day or $25.08 per month under Montana-Dakota's Residential Rate 60. For the Wahpeton residential class, the revenue increases will be collected through both an increase to the Basic Service Charge of $0.145 per day, which amounts to $0.395 per day or $12.01 per month and a decrease in the Distribution Delivery Charge to $0.781 per dk under Montana-Dakota's Firm Gas Service – Wahpeton Rate 62.

All other Basic Service Charges remain as proposed by the Company with the exception of the Basic Service Charge applicable to the Large Interruptible Class which was reduced to $1,800.00 per month.

5. Canceled or Delayed Projects. The Settling Parties agree to, and recommend the Commission approve a reduction of $171,000 from Montana-Dakota's revenue requirement for capital projects that have been canceled or delayed within the test year.

6. Incentive Compensation. The Settling Parties agree to, and recommend the Commission approve a reduction of $1,060,000 from Montana-Dakota's revenue requirement for incentive compensation.

7. City of Portal, North Dakota. The Settling Parties Agree, to and recommend the Commission approve, an increase of $1,000 to Montana-Dakota's revenue requirement representing the delay of distribution system capital projects required to provide service to the City of Portal, North Dakota. In addition to the removal of these capital expenses, the projected volumes and associated revenues expected to be generated by Portal customers were also removed and will not be a component of Montana-Dakota's natural gas operation's revenue requirement.

8. Postage and Materials. The Settling Parties agree to, and recommend the Commission approve, a reduction of $95,000 from Montana-Dakota's revenue requirement representing certain expenses for postage and materials.

9. Tariffs. Attached hereto as Exhibit B are the tariff sheets reflecting the rates prescribed in Exhibit A to this Settlement Agreement and the other proposed tariff changes included in the Company's November 1, 2023 Application. The tariffs included in Exhibit B reflect the integration of Wahpeton customers under the Montana-Dakota tariff and rate schedules to be accomplished over two phases. The Great Plains' North

Dakota tariff will cease as of November 1, 2024.

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 $10,094,595 were implemented January 1, 2024. The annual revenue increase, if approved, is $9,443,883. On an annual basis, the difference equates to $650,712. Upon Commission approval of this Settlement Agreement, Montana-Dakota will file a proposed Interim Rate Refund Plan for refunding the difference, with interest, to customers.

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 and included as Exhibit B of this Settlement Agreement shall be effective on November 1, 2024.

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 November 29, 2023, 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 natural gas rates. For these reasons, the Settling Parties urge the Commission to approve the Settlement Agreement.

Dated this ____10______ day of September, 2024.

MONTANA-DAKOTA UTILITIES CO.

By: Garret Senger

Its: Chief Utilities Officer

Dated this 10th day of September, 2024.

NORTH DAKOTA PUBLIC SERVICE ADVOCACY STAFF

By: ______________________

Its: Advocacy Counsel

Dated this 11th day of September, 2024.

AARP

By: John B Coffman

Its: Attorney

Dated this ___10_____ day of September, 2024.

Federal Executive Agencies

By:_________________________________

_ Its: Capt. Michael A. Rivera, FEA