

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF THE APPLICATION) REGULATORY DIVISION
of MONTANA-DAKOTA UTILITIES CO.,)
a Division of MDU Resources Group, Inc.,) DOCKET NO. D2012.9.100
for Authority to Establish Increased Rates for)
Natural Gas Service) ORDER NO. 7254b

FINAL ORDER

PROCEDURAL HISTORY

1. On September 26, 2012, Montana-Dakota Utilities Co. (MDU) filed its Application for Approval for Authority to Establish Increased Natural Gas Delivery Service Rates and Allocated Cost of Service and Rate Design (Application) with the Montana Public Service Commission (Commission or MPSC), seeking approval of increased natural gas delivery service rates for its Montana customers. MDU’s proposed rates would provide an additional \$3,457,412 of annual revenue, a 5.9 percent overall increase. For residential customers the impact on the distribution portion of the bill would be a 7.9 percent increase in rates.

2. The Commission issued Procedural Order 7254 on November 21, 2012. Intervenor testimony was submitted by the sole intervenor, Montana Consumer Counsel (MCC).

3. On March 29, 2013, a Motion to Amend Procedural Schedule was received from MDU. On April 1, 2013, a Notice of Appearance of Counsel was received from the MCC, and on April 9, 2013, a Motion to Vacate Hearing and Suspend Procedural Schedule was received.

4. On April 11, 2013, Interim Order 7254a was issued. On June 21, 2013, the Commission re-established the Procedural Schedule with modifications, setting the hearing date to August 5, 2013.

5. On August 5 and 6, 2013, an evidentiary hearing was held in Billings, Montana. The Briefing Schedule concluded on October 28, 2013. . On December 5, 2013, a Stipulation (attached) between the parties was filed with the Commission.

DISCUSSION AND FINDINGS OF FACT

Stipulation

6. For settlement purposes, MCC and MDU propose that a fair and equitable resolution of the issues and which would result the establishment of just and reasonable rates would be as described below:

- a. MDU should be authorized an overall annual increase in rates for natural gas service in Montana of \$1,525,000 (an increase of \$675,000 above the present interim rates of \$850,620) provided the rate increase is spread between rate classes as proposed in paragraph 6(c) below.
- b. Because of the substantial divergence between the parties, the parties present the agreed upon revenue requirement as a compromise settlement without a specified cost of equity, capital structure or weighted cost of capital
- c. The increase specified in 6(a) above should be allocated between customer classes and rate schedules by increasing interruptible transportation service rates by 1.4% and applying the remaining revenue deficiency to the other rate classes as an equal percentage increase. The Base Rate for the Residential Class should be set at \$7.00 per month or \$0.23 per day. The Base Rates for the other customer classes are as proposed by MDU in its Application. The reasonableness of the proposed additional revenues is dependent upon the interclass allocation of that revenue requirement and rate design.
- d. MDU will withdraw its request for authorization to implement its proposed Rate 87 tariff, the distribution delivery stabilization mechanism (DDSM).

7. With respect to depreciation expense, the proposal of MDU on plant lives should be adopted and the MCC proposal on removal costs should be adopted. The new depreciation rates should be effective upon issuance of the Commission's final order in the docket. MCC retains the right to object to MDU's implementation of any depreciation rate adjustments between rate cases; and further does not waive any right to seek a true-up if necessary or appropriate for the related impact to ratepayers on rate base incurred as a result of MDU's unilateral adjustment of depreciation rates.

8. The Billings Landfill Gas Production Project will be a non-utility asset, and is not included in MDU's rate base. Any landfill gas from this project used to supply natural gas

service to MDU's Montana- jurisdictional gas customers will be reflected in MDU's gas cost tracking adjustment at the then current CIG index, plus a transportation factor of \$0.0312 per dkt. Royalty expenses will not be included.

9. MDU and MCC agreed that an important component of the agreed upon rate change is the timely implementation of the rates before the winter heating season and as such request that the stipulation rates be in effect on and after December 15, 2013, either in an interim or final basis.

10. Neither party's position is accepted by the other party by virtue of their entry into the stipulation. The various provisions of the stipulation are inseparable from the whole of the agreement between the parties.

Discussion

11. The Commission finds that the Stipulation is a fair and equitable agreement that results in just and reasonable rates for MDU's natural gas customers.

12. One of the concerns the Commission had in this case was the adequacy of the supporting documentation for the depreciation study performed by MDU's witness. The Stipulation resolves the issue for this rate case and establishes rates on a going forward basis. MDU is strongly encouraged to ensure there is supporting documentation for any change in depreciation rates going forward. The testimony of MCC's witness should provide guidance to MDU to what will be expected for supporting documentation in its depreciation studies going forward.

CONCLUSIONS OF LAW

13. The Commission has full power of supervision, regulation, and control of public utilities. § 69-3-201, MCA.

14. A "public utility" includes a private corporation "that owns, operates, or controls any plant or equipment. . . for the production, delivery, or furnishing" of power to other persons. *Id.* at § 69-3-101. As a private corporation that provides natural gas service within the State of Montana, MDU is a "public utility."

15. As a public utility, MDU is required to furnish reasonably adequate service at just and reasonable rates. *Id.* at § 69-3-201 ("every unjust and unreasonable charge is prohibited and declared unlawful.").

16. Every public utility must file schedules with the Commission showing “all rates, tolls, and charges which it has established and which are in force at the time for any service performed by it within the state or for any service in connection therewith. . . .” *Id.* at § 69-3-301(1).

17. Other than rate schedules that adjust certain state and local taxes and fees, a public utility may not change any rate schedule except as approved by the Commission or upon the passage of 9 months. *Id.* at § 69-3-302.

18. Before the Commission approves a rate increase, “or before any change may become effective due to the passage of 9 months,” the Commission must provide notice of the proposed change and announce a hearing on the matter. *Id.* at § 69-3-303(1).

19. The revenues and rate design as proposed in the Stipulation are approved in this Order are just, reasonable and provide a fair resolution of the issues in this case.

ORDER

IT IS HEREBY ORDERED THAT:

20. The Stipulation proposed by MDU and MCC is approved.

21. MDU is authorized to collect an additional \$1,525,000 from its previously authorized final rates (an increase of approximately \$675,000 from the interim rates presently in effect) annually in natural gas delivery revenues as outlined in the discussion above and the attached Stipulation.

22. MDU shall adhere to and abide by all provisions included in this Order.

All rate schedules shall comply with all determinations set forth in this Order.

23. MDU must file tariffs in compliance with this Order.

24. These rates are effective for service rendered on or after December 15, 2013.

DONE AND DATED this 12th day of December 2013 by a vote of 4 to 1.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

W. A. GALLAGHER, Chairman

BOB LAKE, Vice Chairman

KIRK BUSHMAN, Commissioner

TRAVIS KAVULLA, Commissioner (Dissent)

ROGER KOOPMAN, Commissioner

ATTEST:

Aleisha Solem
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.