

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA

In the Matter of the Application of ) EL15-024  
MONTANA-DAKOTA UTILITIES CO., a )  
Division of MDU Resources Group, Inc., ) **SETTLEMENT STIPULATION**  
for Authority to Increase its )  
Electric Rates )

**I. SETTLEMENT STIPULATION**

On June 30, 2015, Montana-Dakota Utilities Co. (“Montana-Dakota” or “Company”) filed with the Public Utilities Commission (“Commission”) an application for authority to increase rates for electric service to customers in its South Dakota Service Territory. The Company proposed an increase of approximately \$2.7 million annually or 19.2 percent of total retail revenues, based on Montana-Dakota’s test year ending December 31, 2014. Under the requested increase, a typical residential customer using 854 kWh per month would see an average increase of approximately \$16.91 per month. The proposed rates would affect approximately 8,600 customers in Montana-Dakota’s service area.

Montana-Dakota and Commission Staff, jointly referred to as “Parties”, have been able to resolve all issues in this proceeding and have entered into this Settlement Stipulation (“Stipulation”), which, if accepted and ordered by the Commission, will determine rates to result from Montana-Dakota’s Application.

**II. PURPOSE**

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving Docket No. EL15-024. The Parties acknowledge that they may have differing views and reasons to support and justify the end result of the Stipulation, but each Party deems the end result to be just and reasonable. In light of such differences, the Parties agree that the resolution of any single issue, whether expressed or implied by the Stipulation, should not be viewed as precedent-setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

1. Upon execution of this Stipulation, the Parties shall immediately file this Stipulation with the Commission together with a joint motion requesting that the Commission issue an Order approving this Stipulation in its entirety without condition or modification.
2. This Stipulation includes all terms of settlement and is submitted with the condition that in the event the Commission imposes any material changes to or conditions upon this stipulation which are unacceptable to either Party, this Stipulation may, at the option of either party, be withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding, nor be used for any other purpose.
3. This Stipulation shall become binding upon execution by the Parties provided, however, that if this Stipulation does not become effective in accordance with Paragraph 2 above, it shall be null, void, and privileged. This Stipulation is intended to relate only to the specific matter referred to herein. Neither Party waives any claim or right which they may otherwise have with respect to any matter not expressly provided for herein. Neither Party shall be deemed to have approved, accepted, agreed, or consented to any rate making principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or be prejudiced or bound thereby in any other current or future rate proceeding before the Commission. Neither Party nor a representative thereof shall directly or indirectly refer to this Stipulation as precedent in any other current or future rate proceeding before the Commission.
4. The Parties to this proceeding stipulate that all pre-filed testimony, exhibits, and work papers be made part of the record in this proceeding. The Parties understand that if the issues settled in this matter had not been settled, the procedural schedule would have continued, Commission Staff would have filed direct testimony, Montana-Dakota would have filed rebuttal testimony, and an evidentiary hearing would have been conducted where the witnesses providing testimony would have been subject to examination.
5. It is understood that the Commission Staff enters into this Stipulation for the benefit of Montana-Dakota's South Dakota customers affected by this docket.

### III. ELEMENTS OF THE STIPULATION

#### 1. Revenue Requirement

The parties agree that Montana-Dakota's attached rate schedules are designed to produce an annual increase in total rate levels (excluding cost of fuel and sales taxes) of \$1,376,183, or approximately 9.9% annually for retail electric service in South Dakota. The total change in revenues will be recovered through a change in base tariff rates along with the implementation of two rider mechanisms explained below. The parties agree to an overall rate of return of 7.216%.

#### 2. Tariffs

The Parties have agreed to revised tariffs and those tariffs are attached as Exhibit A to this Stipulation for presentation to the Commission. The Parties agree the increase in tariffed rates for electric service of \$628,530 will be allocated across the affected rate classes on an equal basis as shown on attached Exhibit B. The Parties agree that the rates agreed to by the Parties result in just and reasonable rates for all of Montana-Dakota's South Dakota customers. The Parties agree on a residential basic service charge of \$7.50 per month (\$.247 per day). The Parties agree to the remainder of the rate design changes proposed by the Company.

#### 3. Fuel Cost Adjustment

The Parties agree to the following changes to the Fuel and Purchased Power Adjustment Rate 58 in addition to those proposed by the Company:

- i. Production Tax Credits (PTCs) associated with the Diamond Willow and Cedar Hills wind generation shall be credited to customers through the Fuel Cost Adjustment (FCA). The PTC level of \$294,887 included in the Company's proposed revenue requirement has been removed from base rates and will be credited through the FCA.
- ii. Market Administration Charges assessed by an RTO were removed from base rates and will be recovered through the FCA.
- iii. 100 percent of all identified costs and credits shall flow through the FCA.
- iv. 100 percent of wholesales sales margins will be credited through the FCA.
- v. A Base Cost of Fuel of \$0.02524 per kWh plus a PTC credit of \$0.00190 per kWh is established.

#### 4. Transmission Cost Recovery Rider

The Parties agree that transmission expense and related revenues associated with MISO and the Southwest Power Pool in the amount of \$440,688 shall be removed from base rates and recovered under the Transmission Cost Recovery Rider Rate 59 (TCRR) on a per kWh basis. Such amount is subject to an annual true-up to be submitted to the Commission by March 1 each year with the rate adjustment effective May 1 each year. The derivation of the Transmission Cost Recovery Rider charge to be implemented effective with service rendered on and after July 1, 2016, net of the estimated interim revenues collected through June 30, 2016, is provided in Exhibit C. Incremental transmission investments, as authorized by the Commission, may be recovered through the TCRR based on future applications. Regarding MDU's Schedule 26A costs, MDU will utilize the rate templates filed with FERC and replace the overall rate of return with an overall rate of return based on the Company's actual capital structure, including short-term debt, actual long-term debt costs as of the prior year, 12-month average short-term debt costs for the prior year, and the rate of return on common equity approved in this rate case. This information will be used to compute an adjustment applicable to that portion of the MDU MISO Schedule 26A costs to be recovered via the Transmission Cost Recovery Rider. MDU will also provide a credit for South Dakota's share of A&G costs collected under Schedule 26A based on the Other O&M allocator applicable under Attachment MM. Since MDU only owns one Schedule 26 cost shared project and this project is included in base rates, the South Dakota's share of the revenue MDU receives for this project will be credited 100% to customers.

#### 5. Infrastructure Rider

The Parties agree that the \$811,631 revenue requirement associated with the Thunder Spirit Wind project shall be recovered through an Infrastructure Rider and assessed to customers on a per kWh basis. The Parties further agree that a portion of the first year costs in the amount of \$209,779 shall be deferred and recovered in subsequent years in order to provide a smoothing effect. The derivation of the Infrastructure Rider charge to be implemented effective with service rendered on and after July 1, 2016, net of the estimated interim revenues collected through June 30, 2016, is provided in Exhibit C. The Company agrees to report average annual capacity factors, transmission curtailments, and economic curtailments for Thunder Spirit Wind. These figures will be provided with the first annual rider filing and continue annually until this project is moved into base rates. The annual rider filing is to be submitted to the Commission by

March 1 each year with the rate adjustment effective May 1 each year. Staff reserves the right to propose alternative treatment or adjustments to the revenue requirement, including true-up of prior years' revenue requirements, in each annual rider filing and future rate cases.

#### 6. Environmental Rider

The Parties agree that an Environmental Rider shall be established for the purpose of recovering future environmental costs incurred by the Company in complying with federal and state environmental mandates determined to be eligible for recovery under SDCL 49-34A-97. At this time no costs are proposed to be recovered under the Environmental Rider and the Company shall file an application with the Commission before any costs shall be recovered.

#### 7. Deferred Cost Recovery

The Parties agree to a 10-year amortization of the costs incurred by the Company in its efforts to acquire generation resources in the Gascoyne project, the Milton R. Young III project and the Big Stone II project and deferred until this proceeding in accordance with the Commission's Order in Docket No. EL09-025 issued on February 11, 2010. However, the unamortized amount is excluded from rate base.

#### 8. Depreciation

The Parties agree to the depreciation rates set forth in Exhibit D.

#### 9. Moratorium

Company agrees that no general rate case shall be filed with the South Dakota Public Utilities Commission for an increase in base rates which would go into effect prior to January 1, 2019. However, this restriction would not prevent Montana-Dakota from filing for a base rate increase to take effect prior to January 1, 2019, if the requested rate increase is based solely on system integrity and safety costs that may have a material effect on the Company's earnings, whether occasioned by federal or state regulatory requirements, an act of God or other unpredictable extraordinary occurrences. The Parties agree that this rate moratorium does not apply to any rider or other adjustment mechanism allowed by state statute.

10. Implementation of Rates

The revised rate schedules shall be implemented with service rendered on and after July 1, 2016, with bills prorated so that usage prior to July 1, 2016 is billed at the previous rates and usage on and after July 1, 2016 is billed at the new rates.

11. Interim Rate Refund


Interim rates were implemented on January 1, 2016. Approval of this Stipulation will authorize a rate increase less than the interim rate level in effect. The Company agrees to refund customers paying the interim increase based on the difference between the interim increase in revenues and the final overall increase in revenues, including the amounts to be recovered under the Transmission Rider, the Infrastructure Rider and the PTCs removed from base rates and now recovered under the FCA, plus interest. A detailed Refund Plan is provided as Exhibit E.

Conclusion

For the reasons stated and based on the representations and agreements made herein, the parties do so agree.

This Stipulation is entered into on this 20<sup>th</sup> day of May, 2016.

MONTANA-DAKOTA UTILITIES CO.

BY:   
BRETT KOENECKE  
May, Adam, Gerdes & Thompson, LLP  
Attorney for Montana-Dakota Utilities Co  
503 S. Pierre Street  
Pierre, SD 57501

Dated: 5/20/16

SOUTH DAKOTA PUBLIC UTILITIES  
COMMISSION STAFF

BY:   
ADAM DE HUECK  
Staff Attorney  
South Dakota Public Utilities Commission  
500 E. Capitol Avenue  
Pierre, SD 57501

Dated: 5/20/16