BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF MONTANA-DAKOTA UTILITIES CO.,
A DIVISION OF MDU RESOURCES GROUP, INC.
FOR AUTHORITY TO INCREASE ITS NATURAL GAS RATES

STAFF MEMORANDUM SUPPORTING
SETTLEMENT STIPULATION

DOCKET NG15-005

Commission Staff (Staff) submits this Memorandum in support of the Settlement Stipulation (Stipulation) of May 18, 2016, between Staff, Montana-Dakota Utilities Co. (MDU or Company), and Federal Executive Agencies[1] (FEA) (jointly, the Parties) in the above-captioned matter.

BACKGROUND

MDU last filed a natural gas rate case, Docket NG12-008, in December 2012. The rates as a result of this docket were effective December 1, 2013.

On June 30, 2015, the Company filed an application with the South Dakota Public Utilities Commission (Commission) requesting approval to increase rates for natural gas service to its customers in its South Dakota retail service territory by approximately $1.5 million annually or approximately 3.1%. A typical residential natural gas customer using 72 dk on an annual basis would see an increase of $2.21 per month or 4.64%.

The primary drivers for the increase in rates discussed in MDU's application are increased operating costs along with increased investment in facilities, including the related depreciation expense and taxes, partially offset by an increase in customers and throughput. MDU's proposed increase was based on a historical test year ended December 31, 2014, adjusted for what MDU believed to be known and measurable changes, a 10.00% return on common equity, and a 7.588% overall rate of return on rate base.

The Commission officially noticed MDU's filing on July 2, 2015, and set an intervention deadline of September 11, 2015. On July 22, 2015, the Commission issued an Order Assessing a Filing Fee and Suspending Operation of Proposed Rates. On July 29, 2015, the FEA filed a Petition to Intervene. On August 20, 2015, the Commission granted intervention to the FEA.

[1] The FEA consists of certain agencies of the United States Government. Ellsworth Air Force Base is a customer of MDU, purchasing natural gas under the Large Interruptible rate schedule.

On November 23, 2015, MDU filed a Notice of Intent to Implement Interim Natural Gas Service Rates effective on and after January 1, 2016.

Settlement discussions between Staff, MDU, and FEA commenced on February 18, 2016. After several discussions, the Parties arrived at a mutually acceptable resolution of the issues presented in MDU's filing.

The Parties reached a comprehensive agreement on MDU's overall revenue deficiency and other issues presented in this case including, but not limited to, class revenue responsibilities, rate design, and tariff concerns.

OVERVIEW OF SETTLEMENT

Staff based its revenue requirement determination on its comprehensive analysis of MDU's filing and information obtained during discovery. Staff accepted some Company adjustments, made corrections where necessary, modified other adjustments, and rejected those that do not qualify as known and reasonably measurable. Lastly, Staff introduced new adjustments not reflected in MDU's filed case.

Company, FEA, and Staff positions were discussed thoroughly at the settlement conferences. As a result, some positions were modified and others were accepted where consensus was found. Ultimately, the Parties agreed on a comprehensive resolution of all issues. Staff believes the settlement is based on sound regulatory principles and avoids additional costly and unnecessary litigation.

STAFF ANALYSIS OF SETTLEMENT

Staff believes this settlement provides MDU with an annual level of revenues relative to its current service costs that is fair, just, and reasonable. These settlement rates allow MDU a reasonable opportunity to earn a return that is adequate to enable it to continue providing safe, adequate, and reliable service to its South Dakota retail natural gas customers.

Staff's determination of the settlement revenue requirement begins with total Company test year costs for the twelve months ended December 31, 2014, and allocates those total Company amounts to the South Dakota retail natural gas jurisdiction. Staff then adjusted the December 31, 2014, test year results for known and measurable post-test year changes. Staff Exhibit___(PJS-1), Schedule 3 illustrates Staff's determination of MDU's *pro forma* operating income under present rates. Staff Exhibit___(PJS-2), Schedule 2 illustrates Staff's calculation of MDU's South Dakota retail natural gas rate base, and Staff Exhibit___(PJS-1), Schedule 2 and Staff Exhibit___(PJS-2), Schedule 1 summarize the positions. Staff Exhibit___(PJS-1), Schedule 1 summarizes Staff's determination of MDU's revenue deficiency and total revenue requirement.

The increase summary by rate schedule is shown on Staff Exhibit___(EJP-2), Schedule 1. Staff Exhibit___(EJP-2), Schedules 2-1 through 2-4 reflect the settlement rates for each rate schedule. The comparison between present and settlement rates and resulting bill impacts for the Residential Service rate schedule is shown on Exhibit___(EJP-2), Schedule 3.

Unless otherwise noted, all of the changes discussed below are changes from the Company's filed position.

REVENUE REQUIREMENT

<u>Rate Base</u>

Average Rate Base – The Company proposed a test year average rate base based on a two-point average of December 31, 2013 and December 31, 2014 balances. The settlement revises this to an average of the 13 month-end account balances, December 31, 2013 through December 31, 2014. This resulted in an increase in rate base of approximately $1,401,000.

Plant Additions – MDU proposed an adjustment to plant in service to reflect the difference in the pro forma average plant in service balance as of December 31, 2015, and the test year average plant in service. This adjustment essentially reflected the annualization of 2014 plant additions that went into service during the test year and one half of the plant additions expected to be in-service by December 31, 2015. The settlement revises this adjustment to: 1) Exclude revenue producing plant additions from the test year annualization and 2) Include only the actual costs of non-revenue producing post-test year plant additions that were completed and placed in service by December 31, 2015. The settlement includes the total actual non-revenue producing post-test year plant additions in contrast to MDU's proposal of one half of all 2015 plant additions. The adjustment also includes the associated impact on accumulated deferred income taxes. The net effect of this adjustment increases rate base by approximately $1,732,000.

Depreciation Reserve – MDU proposed an adjustment to depreciation reserve to reflect changes based on plant additions. The settlement revises this adjustment based on the settlement pro forma plant discussed above and reflects the average first year accumulated depreciation for post test year plant additions and accumulated depreciation associated with the test year plant annualization. The adjustment increases rate base by approximately $2,247,000.

Other Working Capital – The settlement reflects a more recent 13-month ending December 31, 2015 average for materials and supplies, prepaid insurance, customer advances for construction, and customer deposits. This adjustment also includes an offsetting accumulated deferred income tax adjustment for customer advances for construction and customer deposits. The net effect of these changes decreases rate base by approximately $114,000.

Unamortized Gain/Loss on Debt – From time to time, when it is cost-effective to do so, MDU refinances certain issues of outstanding long-term debt. Normally, there is either a gain or a loss recorded on the re-acquired debt, which is amortized over the remaining life of the debt. The gain or loss can be reflected in the weighted cost of debt calculation or as a separate amortization expense or credit in operating expenses. Under either accounting treatment, however, there is triggered a deferred income tax expense or credit. MDU proposed adjustments to its deferred tax expense and to the deferred tax reserve to reflect the income tax consequences of the amortization of the loss on reacquired debt. Staff accepted MDU's adjustments in this regard.

Unamortized Rate Case Expense – MDU proposed recovery of projected rate case expense for NG15-005, the remaining unamortized rate case expense from NG12-008, and the residual costs related to NG12-008, all amortized over a five-year period.

This settlement reflects a revised projection of expense for NG15-005, the remaining unamortized rate case expense from NG12-008, and the residual costs related to NG12-008, for a total of $284,717 amortized over a three-year period, with the average unamortized balance included in rate base. The net effect of this adjustment is a rate base decrease of approximately $96,000.

Cash Working Capital & Tax Collections Available – MDU's proposed rate base did not include an allowance for cash working capital nor was the Company able to provide Staff with an updated lead-lag analysis. This lead-lag analysis should examine the timing of the Company's receipt of service revenues from customers in relation to the Company's payment of expenses to vendors and employees. Staff carefully examined MDU's prior cash working capital adjustments and corresponding revenue lag and expense lead day determinations and calculated cash working capital and tax collections available adjustments with the following modifications to prior inputs:

1. Included a separate expense lead for vacation pay;
2. Included a separate expense lead for incentive compensation and bonuses;
3. Included a separate expense lead for injuries and damages;
4. Used the standard turnover rate calculation for vacation, injuries and damages, and uncollectible accounts expense;
5. Included a separate weight for North Dakota ad valorem tax payments;
6. Included an extra lead day for FICA expense representing the delay between payday and when dollars are remitted;
7. Revised expense lead days for federal unemployment tax, state unemployment tax, state gross receipts tax, and federal income tax to properly reflect federal and state statue and keep consistent with lead days used for other utilities;
8. Revised the revenue lag days to reflect an extra day of processing time for the Company;
9. Calculated a separate rate base deduction for tax collections which the Company receives in advance of turning the related payments over to the taxing authorities; and
10. Revised expenses per day to incorporate into the lead-lag analysis the impacts of Staff's recommended adjustments to pro forma operating expenses.

These adjustments decrease rate base by approximately $875,000.

ADIT Normalization – MDU made a deferred tax reserve adjustment for the amortization of the change to full tax normalization. Staff accepted this adjustment.

Aviation – Staff proposed an adjustment to the Aviation Rate Base included in the test year. This settlement removes 50% of Aviation Rate Base related to use of the corporate aircraft, consistent with the treatment in Docket NG12-008. The effect of this adjustment decreases rate base by approximately $92,000.

Operating Income

Revenue at Current Rates – The Company proposed to adjust test year revenues by restating the per books consumption at current rates. Also included was an adjustment to reflect a projected annual gas costs for 2015, exclusive of the surcharge adjustment, and elimination of the unbilled revenue, margin sharing credit, and the reserve for refund. The settlement accepts all portions of the adjustment except the projected annual gas costs for 2015. Staff's adjustment reflects the actual annual gas costs for 2015. As noted in the tariffs in Section No. 3, Sheet No. 29, the surcharge adjustment accounts for unrecovered purchased gas costs. This surcharge adjustment ensures that PGA costs are recovered. Including actual 2015 gas costs plus the surcharge adjustment would double count certain gas cost recoveries. The effect of this adjustment decreases revenues by approximately $544,000.

Normal Weather – Staff challenged MDU's weather normalization adjustment on the grounds that its statistical models were not actually measuring how usage responds to abnormal weather, but to how usage responds to normal weather patterns during the course of the year. Staff's analysis showed that usage for the residential and firm large and small general rate classes was weather sensitive, but not the interruptible classes. MDU accepted Staff's weather adjustment for settlement purposes. This adjustment increases revenues by approximately $47,000.

Other Revenue – The Company proposed an adjustment to Rent Revenue to reflect the 2014 annualized rent revenue, Late Payment Revenue based on a three year average ratio of late payment revenues to sales and transportation revenue applied to pro forma revenue, and Penalty Revenue which reflects a three year average. This settlement reflects a removal of all late payment revenues, accepts the Company's Rent Revenue adjustment annualizing an entire year's worth of revenues from WBI, who had thirteen months of revenues in the test year, and KRC, who only had 9 months of revenues in the test year, and includes a five year average of both Miscellaneous Revenue and Penalty Revenue. Staff removed all of the late payment revenues on the basis that the cash working capital adjustment does not account for late payments, only on time payments. Therefore, it is appropriate for MDU to retain the late-payment fees collected in the test year and to not include them in the revenue requirement. This is consistent with treatment in prior MDU rate cases. Staff picked a five year average for the Miscellaneous Revenue and Penalty Revenue part of the adjustment given the volatility of each account, and a five year average provides a large enough data set to allow any high or low points to be included and averaged out over five years. The effect of this adjustment decreases revenues by approximately $58,000.

Cost of Gas – The Company proposed to adjust the cost of gas to reflect the pro forma dk sales, based on the Company's weather normalized dk sales, and a projected annual 2015 gas cost level. The Company also included a distribution loss factor of 1.00%. This settlement reflects the cost of gas to reflect the pro forma dk sales, based on the Staff's weather normalized dk sales, an actual annual 2015 gas cost, and a distribution loss factor of 1.00 percent. The effect of this adjustment decreases expenses by approximately $468,000.

Labor – MDU's filed case proposed adjustments to include the Company's three-year average level of incentive compensation payouts and recognize the 2015 union and non-union wage increases of 4.00%

and 3.50%, respectively. Staff's adjustment removes all executive incentive compensation awards, removes one-third of the non-executive incentive compensation awards to eliminate rate recovery for incentives paid for achieving financial goals, and reflects the weighted average union wage increase of 3.79%. Also, staff has reviewed salary studies which indicate MDU's pay increases are in line with industry averages. These changes decrease operating expense by approximately $160,000.

Benefits – MDU proposed an increase to benefits expense to reflect a projected 2015 budget. Staff's adjustment decreases the pro forma amount to the actual 2015 expense. It should also be noted the Company's defined benefit pension plan was closed to new entrants in January 2006. Additionally, both the non-union (2009) and union (2011) plans have been frozen to significantly reduce future liability and the volatile funding swings which were occurring. There was no change to the pension benefits employees earned as of December 31, 2009 (non-union) and December 31, 2011 (union), but participants' age 65 retirement benefits will remain frozen. Staff's adjustment decreases operating expense by approximately $177,000.

Vehicles & Work Equipment – The Company proposed an adjustment to adjust depreciation for vehicles and work equipment charged to operations and maintenance expense through clearing accounts. The settlement revises the adjustment based on pro forma plant. This adjustment decreases operating expense by approximately $5,000.

Subcontract Labor – MDU proposed an increase to subcontract labor expense to reflect a projected 2015 budget. Staff's adjustment reflects a five-year average of subcontract labor expenses from January 2011 through December 2015, as this expense has shown a tendency to have significant volatility with expenses ranging from approximately $404,000 in 2011 to approximately $708,000 in 2015. This adjustment decreases operating expense by approximately $140,000.

Materials – The Company proposed to adjust materials based on a 2015 budget amount less the removal of a non-recurring expense for the replacement of a compressor. This settlement reflects an adjusted five year average of materials expense. The compressor was removed from the test year, then, Staff took a five year average of expenses from 2011 through 2015. The effect of this adjustment increases expenses by approximately $2,000.

Software Maintenance – The Company proposed an adjustment to Software Maintenance Expense included in the test year to adjust for increasing software fees and fixed network expenses. This settlement partially accepts this adjustment to account for Itron's software maintenance expense and the newly implemented OneSource Tax Provision software solutions. The effect of this adjustment decreases operating expenses by approximately $5,000.

Office Expense – The Company proposed an adjustment to Office Expense included in the test year to adjust for lower than normal information systems expense and an increase associated with a new copier purchased in 2014. This settlement accepts this adjustment.

Communications – The Company proposed an adjustment to communication expense to exclude expenses not applicable to South Dakota and increased costs due to additional phones and increased district operation costs. Staff partially accepts this adjustment to realize the incorrectly recorded expense not applicable to South Dakota. The effect of this adjustment decreases operating expenses by approximately $2,000.

Rent – The Company proposed to adjust rent expense to include one-fifth of a five year lease expense for the Sturgis building instead of the full five years that was paid in the test year and increase expenses related to additional office space rented in Bismarck. Staff accepted this adjustment as all adjustments to the test year were based on actual amounts.

Company Consumption – The Company proposed to adjust the gas usage in company buildings by using the ratio change between the firm sales revenues and MDU's normalized at current rates revenues. This settlement reflects an adjustment in the gas usage in company buildings by using the ratio change between the firm sales revenues and Staff's normalized at current rates revenues. The effect of this adjustment decreases expenses by approximately $500.

Uncollectible Accounts – The Company proposed to adjust the uncollectible accounts expense by using the three year average ratio of net write-offs to revenues applied to the Company's calculations of pro forma sales and transportation revenues. This settlement reflects a five year average ratio of net write-offs to revenues applied to the Staff's calculations of pro forma sales and transportation revenues. This adjustment also reflects a five year average ratio of net write-offs applied to the Staff's revenue deficiency. The effect of this adjustment increases expenses by approximately $6,000.

Postage – MDU proposed an adjustment to reflect an increase in postage costs net of a reduction in postage expense calculated by annualizing the number of customers that were paying bills electronically as of December 2014. This settlement accepts this adjustment and further removes additional costs by annualizing the number of customers paying electronically to October 2015 levels. The effect of this adjustment reduces operating expenses by approximately $7,000.

Advertising – MDU proposed an adjustment to remove advertising expenses that should not be recovered from ratepayers. The settlement accepts this adjustment and further removes additional advertising costs which do not contribute to the provision of safe, adequate, and reliable electric service for South Dakota ratepayers. The effect of this adjustment reduces operating expenses by approximately $29,000.

Insurance Expense – The Company proposed to adjust the insurance expense by using projected expenses for 2015 and a five year average of self-insurance expenses. This settlement reflects actual 2015 insurance expenses and a five year average of self-insurance expenses. The effect of this adjustment decreases expenses by approximately $10,000.

Industry Dues – The Company proposed an adjustment to the industry dues expense included in the test year. This settlement accepts those adjustments and further removes additional industry dues expense related to lobbying and other various activities that do not provide for the provision of safe, adequate, and reliable electric service for South Dakota ratepayers. The effect of this adjustment decreases operating expenses by approximately $23,000.

Rate Case Expense – MDU proposed recovery of projected rate case expense for NG15-005, the remaining unamortized rate case expense from NG12-008, and the residual costs related to NG12-008, all amortized over a five-year period, plus a three-year average of ongoing regulatory commission expense.

This settlement reflects a revised projection of expense for NG15-005, the remaining unamortized rate case expense from NG12-008, and the residual costs related to NG12-008, for a total of $284,717 amortized over a three-year period, plus a five-year average of ongoing regulatory commission expense. The net effect of this adjustment increases operating expense by approximately $6,000.

Depreciation on Plant Additions – The Company proposed an adjustment to restate depreciation expense to the average pro forma level of plant in service. The settlement revises this adjustment based on the settlement test year plant annualization and post-test year plant addition adjustments. This adjustment decreases depreciation expense by approximately $11,000.

Property Taxes – The Company proposed an adjustment to restate property taxes to the pro forma level of plant in service based on the 2014 ratio of property taxes to plant. The settlement revises this adjustment based on the settlement test year plant annualization and post-test year plant addition adjustments. This adjustment increases property taxes by approximately $6,000.

Payroll Taxes – MDU proposed corresponding adjustments to recognize the 2015 wage increases as they pertain to Social Security, Medicare, Federal Unemployment Tax, and State Unemployment Tax contributions. Staff agreed the pay increases would have a similar impact on payroll tax expense, but made the following modifications:

1. Revised the pro-forma increase to match the percent increase calculated for the labor adjustment, which revised the union percent increase and removed all executive and one-third of non-executive incentive compensation awards; and
2. Removed the adjustments for Federal Unemployment Tax and State Unemployment Tax, as wages subject to these taxes are capped at $7,000 and $15,000, respectively.

These modifications decrease operating expense by approximately $12,000.

Interest Synchronization – The settlement synchronizes the tax deduction for interest expense with the weighted cost of long-term debt and the historic test year rate base as adjusted for known and measurable changes.

Book/Tax Depreciation on Plant Additions – The Company proposed an adjustment to deferred income taxes associated with 2015 plant additions. The settlement revises the adjustment based on the settlement pro forma plant additions. Due to the offsetting adjustment to federal income taxes, this adjustment has no impact to the revenue requirement other than slight impacts to the cash working capital adjustment.

Elimination of Closing/Filing and Prior Period Adjustments – MDU's test period financial statements include various tax accruals for expected tax liabilities and true-up adjustments to both current and deferred income taxes for the tax consequences of events that took place in prior accounting periods. The ratemaking allowance for federal income taxes, however, reflects only the tax consequences of the taxable income that is determined for ratemaking purposes. Therefore, it is necessary to remove from ratemaking consideration the closing, filing and prior period tax adjustments to the extent they are not included in the ratemaking determination of MDU's taxable income for the test year. Staff accepted MDU's adjustments in this regard.

Lighting Upgrades Savings – The Company's proposed plant addition adjustment included a project to upgrade lighting in its Rapid City Office to more efficient LED fixtures. Staff proposed an adjustment to reflect the cost savings associated with this upgrade and the settlement reflects this adjustment, decreasing operating expense by approximately $10,000.

Aviation Expense – Staff proposed an adjustment to the Aviation Expense included in the test year. This settlement removes 50% of Aviation Operating Expenses related to use of the corporate aircraft, consistent with the treatment in Docket NG12-008. The effect of this adjustment decreases operating expenses by approximately $23,000.

Cost of Capital and Rate of Return

Per Statement G, MDU requested an overall rate of return of 7.588% on a capital structure consisting of 49.515 percent common equity, 1.242 percent preferred stock, 8.108 percent short term debt and 41.135 percent long term debt. The embedded cost of long term debt was 5.949 percent while the embedded cost of short term debt was 1.631 percent. Normally, short term debt is not considered in capital structure for ratemaking purposes because the rate base should be financed with an appropriate mix of long term sources of capital. However, at the present time short term debt is quite low, and ratepayers are benefitting from its inclusion in the capital structure. Also, without its inclusion, the equity ratio would be excessively high, harming ratepayers. Based on these case-specific considerations, Staff accepted all components of the overall rate of return request for settlement except the requested rate of return on equity of 10 percent.

[Begin Confidential] [redacted]

[redacted] **[End Confidential]**, the settlement overall rate of return is 7.216 percent.

Revenue Deficiency

As shown on Exhibit___(PJS-1), Schedule 1, Staff's determination of the adjusted average rate base is $44,124,521. Multiplying the adjusted average rate base by the settlement rate of return of 7.216%, results in a required operating income of $3,184,025. When compared to the operating income with present rates, the income deficiency is $783,417, and after applying the gross revenue conversion factor to add additional income taxes made necessary by the increase, the revenue deficiency is $1,205,257.

MDU proposed an adjustment to reflect the gross receipts tax rate of .14%, the current rate as of the application date. Staff's gross receipts tax adjustment reflects the changes made to pro-forma revenues and also uses the gross receipts tax rate of .14%. Since a settlement had already been reached by the time the rate was decreased to .135% on April 11, 2016, and any corresponding adjustments would be de minimis, the Settlement accepts the gross receipts tax rate as proposed. Adding the gross receipts tax amount of $1,687 to the revenue deficiency results in a total revenue deficiency of $1,206,944. This is an average increase of approximately 2.45%.

RATE DESIGN ISSUES

The Parties agree in principle on all issues regarding rate design and the class revenue distribution. The settlement position reached between the Parties is discussed below.

Class Cost Allocation/Spread of the Increase

MDU's initial filing included a class cost of service study, which indicated the Residential, Small Firm General and Large Interruptible rate classes where not contributing a fair share to the Company's overall rate of return and that the Large Firm General and Small Interruptible classes have been paying in excess of their cost of service. Staff took issue with the "minimum distribution system" approach used in MDU's study to classify distribution mains to both the demand and the customer cost classifications. Instead, Staff argued that the minimum distribution system approach understates the contribution of the Residential and Small Firm General classes to the Company's overall rate of return. Even after the minimum distribution system approach was eliminated from MDU's cost study, the rates of return for the Residential and Small Firm General classes remained below the system-wide average rate of return. This result indicates that rates for the Residential and Small Firm General classes should be increased by an amount in excess of the overall percentage increase to which MDU is authorized in this proceeding. In addition, the Intervenor representing a portion of the Large Interruptible rate class argued that MDU's cost study inappropriately allocated to that class a portion of peak day cost responsibility and thereby understating that class's contribution to MDU's overall rate of return. The Intervenor argued that no peak day cost responsibility should be allocated to that class since, because of their interruptible nature, customers in that class cannot rely on peak day service. As a result, the Intervenors argued that rates for the Large Interruptible class should be reduced rather than increased.

To accommodate Staff's and the Intervenor's concerns, the parties agreed to the following spread of the increase among the various rate classes.

Residential	3.16%
Small Firm General	3.43%
Large Firm General	1.00%
Small Interruptible Sales & Transportation	0.46%
Large Interruptible Sales & Transportation	0.46%
Total South Dakota	2.45%

Rate Design

Residential Customer Charge – MDU's present rate schedules contain a $0.28/day ($8.51/month) customer charge for the Residential Rate 60 class. MDU proposed to nearly double this charge to $0.48/day ($14.60/month). MDU claimed that its cost studies support an even higher Residential monthly customer charge --- $16.69/month. Staff's cost analysis did not support such a large increase in the Residential service charge but Staff agreed that some increase in the customer charge is reasonable at this time. Ultimately, MDU and Staff agreed to a $0.30/day ($9.12/month) customer charge for the Residential Rate 60 class.

OTHER ISSUES

Targeted Infrastructure Rider – MDU proposed to implement a Targeted Infrastructure Rider to recover the costs associated with specified operational and safety-related infrastructure replacement and upgrade projects. Since the South Dakota legislature has adopted legislation allowing specific riders for electric utilities but has not done so for natural gas utilities, Staff recommended the Company seek legislative changes prior to asking for Commission approval of such a rider. Thus, the Settlement excludes the implementation of a Targeted Infrastructure Rider.

Rate Moratorium – The Parties agree that MDU shall not file any rate application for an increase in base rates which would go into effect prior to January 1, 2019, subject to the occurrence of certain extraordinary events.

Implementation of Rates – The tariffs shown on Exhibit A attached to the Stipulation are proposed to be implemented for service rendered on and after July 1, 2016. Customer bills will be prorated so that usage prior to that date is billed at the previous rates and usage on and after that date is billed at the new rates.

Interim Rate Refund – Interim rates were implemented on January 1, 2016. Approval of the Settlement will authorize a rate increase less than the interim rate level. The Company agrees to refund customers the difference between interim rates and new rates established by the settlement for usage during the period January 1, 2016, through June 30, 2016. As part of the refund, MDU will include interest, calculated by applying a 7% annual interest to the average refund balance for each month that interim revenues were collected. A detailed refund plan is provided as Exhibit B to the Stipulation.

RECOMMENDATION

For the reasons stated above, Staff recommends the Commission grant the Joint Motion for Approval of Revised Settlement Stipulation and adopt the Stipulation without modification.