

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**IN THE MATTER OF THE
APPLICATION OF SOUTH DAKOTA
INTRASTATE PIPELINE COMPANY
FOR AUTHORITY TO INCREASE ITS
NATURAL GAS RATES**

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SETTLEMENT STIPULATION

NG17-009

This Stipulation reflects the resolution reached between South Dakota Intrastate Pipeline Company (“SDIP”), Montana-Dakota Utilities Co. (“MDU”), Ring-neck Energy & Feed, LLC, dba Ringneck Energy, LLC (“Ring-neck”), and the Staff of the South Dakota Public Utilities Commission (“Staff”), together “Parties,” on all issues in the above-captioned docket.

I. BACKGROUND

On June 1, 2017, the South Dakota Public Utilities Commission (“Commission”) received a letter of transmittal from SDIP requesting authority to increase its natural gas rates. On June 22, 2017, Montana-Dakota Utilities Co. (MDU) filed a Petition to Intervene and on July 6, 2017, the Commission issued an Order Granting Intervention; Order Assessing Filing Fee.

On June 29, 2017, SDIP filed a confidential application for authority to increase its natural gas rates (“Application”). This Application was subsequently made public on August 8, 2017. The Application requested authority to increase annual revenues by \$1,775,032 based on a December 31, 2016 test year adjusted for known and measurable changes, resulting in a total revenue requirement of \$3,968,876. SDIP requested the Commission approve a Transportation Rate as a monthly charge of \$330,739.66.

On November 20, 2017, SDIP filed Supplemental Testimonies and Exhibits and Revised Statements and Support Schedules. The Supplemental Direct Testimony of William Murphy

requested the Commission approve a test-year revenue requirement of \$2,444,080 (an increase in annual revenues of \$250,236) and adopt a rate design consisting of a monthly customer charge of \$203,673.33.

On February 15, 2018, Ring-neck filed a Petition to Intervene and the Commission issued an order granting intervention to Ring-neck on March 2, 2018.

The Parties held several negotiating sessions in an effort to arrive at a mutually acceptable resolution of this matter. As a result of those negotiations, the Parties have resolved all issues in this proceeding and have entered into this Settlement Stipulation (“Stipulation”), which, if accepted and ordered by the Commission, will determine the rates to result from SDIP’s Application.

II. PURPOSE OF THE SETTLEMENT STIPULATION

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving Docket NG17-009. The Parties acknowledge that they may have differing views that justify the end result 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 express 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 further condition or modification.
2. This Stipulation is expressly conditioned on its acceptance by the Commission in its entirety. If the Commission imposes any material changes in or conditions to this

Stipulation which are unacceptable to any Party, such Party (“Withdrawing Party”) shall have three calendar days to notify the other Parties and the Commission of its desire to withdraw from this Stipulation. In such an event, (1) this Stipulation shall be null and void and shall not constitute any part of the record of the Commission’s consideration of the Application; (2) the Withdrawing Party shall simultaneously file a motion for the establishment of a new procedural schedule, which schedule shall include dates for testimony and hearings on all matters and issues set forth in the Application; and (3) Parties other than the Withdrawing Party shall timely file a response in support of the Withdrawing Party’s motion for the establishment of a new procedural schedule and consideration of all issues set forth in the Application, but may suggest alternatives to the dates included in the proposed procedural schedule. Should testimony be filed and hearings occur on the merits of the Application, all Parties are free to argue their original positions and this Stipulation shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose in this case or in any other case.

3. This Stipulation shall become binding upon execution by the Parties, provided however, if this Stipulation is withdrawn in accordance with Paragraph II.2. above, it shall be null, void, and privileged. This Stipulation is intended to relate only to the specific matters referred to herein; no Party waives any right or claim which it may otherwise have with respect to any matter not expressly provided for herein; no Party shall be deemed to have approved, accepted, agreed, or consented to any ratemaking principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or be advantaged or prejudiced or bound thereby in any other current or future proceeding before the Commission.

Except as and limited to the agreement in Paragraph III.2 below with respect to rate case expense, no Party nor representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission relating to this Stipulation as precedent in any other current or future rate proceeding or any other 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 this matter had not been settled, the procedural schedule would have continued, Staff, MDU and Ring-neck would have filed direct testimony, SDIP 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 Staff enters into this Stipulation for the benefit of SDIP's South Dakota customers affected by this docket.
6. MDU, as the only current customer of SDIP, agrees to waive any and all customer notice requirements that SDIP would otherwise be required to provide as a result of this stipulation and any Commission order resulting from this stipulation.

III. ELEMENTS OF THE STIPULATION

1. Revenue Requirement

The Cost of Service reflects SDIP's revenue requirement before the inclusion of rate case expense. The Parties agree that Cost of Service produces an ongoing annual revenue decrease of \$397,883, to recover a total annual revenue requirement of \$1,795,961 for natural gas transportation service in South Dakota, as compared to current revenues.

This revenue requirement is based upon an overall rate of return of 7.22% agreed to by the Parties.

2. Rate Case Expense

The Parties agree that the total estimated rate case expense is \$502,028. The Parties agree that the estimated rate case expense amount shall be recovered in addition to the revenue requirement discussed in paragraph III.1 above and shall be amortized over five years. This results in \$100,406 in rate case expense plus \$18,123 in rate case rate base ROR recovery for a total recovery of \$118,529 in total rate case expenses per year and results in a revenue requirement of \$1,914,490 for the time period of September 1, 2018 through August 31, 2023, or until SDIP submits a new application for rates and such rates are approved to be effective prior to August 31, 2023, as set forth in paragraph III.3 below. When SDIP submits a new application to increase rates, the Parties agree that any unrecovered balance for rate case expense from this docket shall be included as a cost of service item in SDIP's new application, and a rate of return will be applied to the associated unamortized balance.

3. 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 that MDU, as the sole firm transportation service customer of SDIP, will be billed a flat monthly fee for firm transportation service of \$159,540.83 monthly, \$1,914,490 annually, until SDIP submits a new application for rates consistent with this Stipulation. If SDIP has not submitted a new application for rates, with an effective date prior to August 31, 2023, the Parties agree that rates for MDU will be adjusted as follows: Consistent with the Cost of

Service, MDU will be billed a flat monthly fee for firm transportation service of \$149,663.42 monthly, \$1,795,961 annually, beginning September 1, 2023.

4. Ring-neck Energy

The Parties have agreed to the rate design, treatment, and associated tariff provisions for Ring-neck Energy as follows:

- a. MDU shall be entitled to the full capacity of the pipeline of 15,588 dk per day and shall have priority for gas services through SDIP's pipeline for the service of customers serviced by MDU.
- b. Ring-neck shall take interruptible service for all usage pursuant to the terms of the attached tariff and as described in this stipulation.
- c. The interruptible transportation service rate is determined based upon a 100 percent load factor assumption. The interruptible transportation service rate in effect from September 1, 2018, through August 31, 2023, will be \$0.3365 per dk. The interruptible transportation service rate in effect beginning September 1, 2023, will be \$0.3157 per dk, if SDIP has not submitted a new application for rates, with an effective date prior to August 31, 2023.
- d. The revenues associated with the interruptible transportation service taken by Ring-neck will be shared between SDIP and MDU as follows: 10% of the revenues received for the first 2,000 dk/day of interruptible usage will be retained by SDIP and 90% shall be credited to MDU. 5% of the revenues received for the next 2,000 dk/day of interruptible usage will be retained by SDIP and 95% shall be credited to MDU. Revenues associated with interruptible usage over 4,000 dk/day will be credited 100% to MDU. The credits due to MDU shall be credited to the amounts billed monthly to MDU for firm transportation service that are

contained in paragraph 3 in this Stipulation. MDU shall be provided with a copy of all invoices submitted to Ring-neck by SDIP at the time of invoicing and applicable credits to MDU shall be reflected on the next SDIP invoice to MDU following the invoice to Ring-neck.

- e. Ring-neck will pay SDIP for ancillary services in the amount of \$2,000/month. This revenue is not subject to the revenue crediting applicable under paragraph III. 4.d of this Stipulation.
- f. The Parties agree that SDIP shall, at a minimum, recover any increase in insurance costs associated with adding Ring-neck as a customer.
- g. If the annual revenue received by SDIP under paragraph III.4.d of this Stipulation is insufficient to recover any increase in annual general and excess insurance costs associated with providing service under the interruptible transportation service rate tariff, which is greater than the amounts used to establish the revenue requirement in paragraph III.1 of this Stipulation, a revenue guarantee will be imposed. Ring-neck shall guarantee SDIP revenues, in addition to the amount paid for ancillary services described in paragraph III.4.e, that at a minimum, recover the increased insurance costs. The additional revenue due to SDIP by Ring-neck shall be calculated by determining the difference between the increase in insurance costs above the amount used to establish the revenue requirement in paragraph III.1 and SDIP's share of the interruptible service revenues described in paragraph III.4.d, should the actual increase in insurance costs exceed SDIP's share of the interruptible service revenues.
- h. SDIP shall file annually by October 1st each year beginning in 2019, a compliance filing detailing the actual increase in annual general and excess insurance costs

above the 3-year levelized excess and general insurance costs included in the cost of service of \$88,741. Staff or Ring-neck may request a docket be opened should issues arise in review of the compliance filing. Ring-neck's bill shall be subject to true-up subject to the revenue guarantee described in paragraph 4g in accordance with the information provided in this compliance filing.

- i. SDIP's share of such interruptible transportation service and the amounts received pursuant to this section shall not be otherwise deducted from the amounts received by SDIP pursuant to the terms of this Stipulation.
- j. Ring-neck shall be responsible for any upfront construction costs required for SDIP to extend service in the form of a connection fee.

5. Depreciation Rates

The Parties agree that the depreciation lives and rates found on Exhibit BAM-1 Schedule 3 attached to Staff's Memorandum in this docket shall be the depreciation lives and rates in effect with approval of this Stipulation.

6. Moratorium

SDIP agrees that no rate case shall be filed with the South Dakota Public Utilities Commission for an increase in rates which would go into effect prior to September 1, 2021. However, this restriction would not prevent SDIP from filing for a rate increase to take effect prior to September 1, 2021, if SDIP's cost of service is expected to materially increase due to changes in federal or state regulatory requirements, an act of God, or otherwise unpredictable extraordinary occurrences. Should SDIP file for a rate increase effective prior to September 1, 2021, Staff reserves the right to argue for an adjustment for the additional revenue requirement attained from the levelized operating income calculation in Exhibit PJS-1 Schedule 4.

7. Wage Increases

SDIP agrees to provide its employees a wage increase of at least three percent effective September 1, 2018, as this was determined to be a known and measurable adjustment in Exhibit PJS-3 Schedule 6. The Parties agree to this increase. SDIP further agrees to provide its employees wage increases of at least two and a half percent effective September 1, 2019 and September 1, 2020, as these were the wage increases used in the calculation of levelized operating income in Exhibit PJS-1 Schedule 4. The Parties agree to this increase.

8. Decommissioning

The Parties agree that if SDIP desires to recover costs associated with the potential future decommissioning, dismantling, and removal of the pipeline, this issue will be addressed as part of a future rate case filing. No such costs are included in the revenue requirement resulting from this Stipulation, but that does not limit inclusion in a future rate case.

9. Implementation of Rates

The revised rate schedules shall be implemented with service rendered on or after September 1, 2018.

10. MDU Agreement

The Parties agree that the existing 1993 contract between SDIP and MDU is in effect having been timely extended pursuant to its terms, except as modified by this Stipulation, further Commission orders or as agreed to by the parties.

IV. CONCLUSION

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

This Stipulation is entered into effective this 20th day of June 2018.

**South Dakota Intrastate Pipeline
Company**

By: _____

Its: _____

Montana-Dakota Utilities Co.

By: _____

Its: _____

**South Dakota Public Utilities Commission
Staff**

By: _____

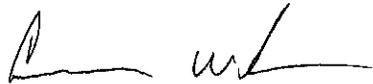
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**Ring-neck Energy & Feed, LLC dba
Ringneck Energy**

By: _____

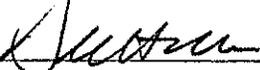
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**South Dakota Intrastate Pipeline
Company**

By: 

Its: VP + COO

Montana-Dakota Utilities Co.

By: 

Its: Counsel

**South Dakota Public Utilities Commission
Staff**

By: 

Its: Staff Attorney

**Ring-neck Energy & Feed, LLC dba
Ringneck Energy**

By: _____

Its: _____

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South Dakota Intrastate Pipeline Company

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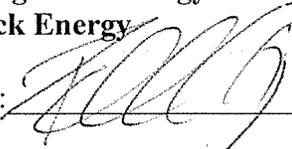
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Montana-Dakota Utilities Co.

Ring-neck Energy & Feed, LLC dba Ring-neck Energy

By: _____

By:  _____

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Its: a. Holmberg ✓ _____