BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

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

STAFF MEMORANDUM SUPPORTING SETTLEMENT STIPULATION

DOCKET NG23-014

Commission Staff (Staff) submits this Memorandum in support of the Settlement Stipulation (Settlement) of July 26, 2024, between Staff and Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group, Inc. (MDU or Company) in the above-captioned matter.

BACKGROUND

On August 15, 2023, the Company filed an application with the South Dakota Public Utilities Commission (Commission) requesting approval to increase rates for natural gas service to customers in its South Dakota retail service territory by approximately $7.42 million annually or approximately 11.2%. A typical residential natural gas customer using 5.5 dk per month would see a bill increase of $8.70 per month, or 15.9% under MDU's proposed rates.

MDU's proposed increase was based on a historical test year ended December 31, 2022, adjusted for what MDU believed to be known and measurable changes, a 10.50% return allowance on common equity, and a 7.60% overall rate of return allowance on rate base.

MDU's last base rate increase application was filed on June 30, 2015[1]. MDU states[2] the need for an increase in natural gas rates is primarily driven by investments made since the last rate case and increases in O&M expenses.

The Commission officially noticed MDU's filing on August 17, 2023, and set an intervention deadline of October 13, 2023. On September 1, 2023, the Commission issued an Order Assessing Filing Fee; Order Suspending Operation of Proposed Rates; Order Authorizing Executive Director to Enter into Consulting Contracts.

On April 4, 2024, after extensive discovery, Staff provided MDU with its draft revenue requirement determination. Thereafter, Staff and MDU (jointly, the Parties) engaged in settlement discussions to arrive at a mutually acceptable resolution of the issues. In-person discussions occurred on April 15, 2024, through April 17, 2024. Ultimately, the Parties reached a comprehensive agreement on MDU's

[1] See Docket NG15-005.
[2] See Testimony of Nicole Kivisto

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's revenue requirement determination is the result of comprehensive analyses 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 did not qualify as known and reasonably measurable. Lastly, Staff introduced new adjustments not reflected in MDU's filed case.

Company and Staff positions were discussed thoroughly at the in-person 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.

The Parties agree MDU's revenue deficiency recovered through natural gas base rates is $5,369,333. The revenue requirement and supporting calculations described in this Memorandum and attachments depict Staff's positions regarding all components of MDU's South Dakota jurisdictional natural gas revenue requirement.

STAFF OVERVIEW OF BASE RATE SETTLEMENT

Staff's settlement revenue requirement determination begins with total Company costs for the test year ended December 31, 2022, and allocates those amounts to the South Dakota retail jurisdiction. Staff then adjusted the 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 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 base rate revenue deficiency and total revenue requirement.

The agreed upon base revenue increase by rate schedule is shown on Staff Exhibit___(EJP-9), Schedule 1. Staff Exhibit___(EJP-9), Schedules 2-1 through 2-4 reflect the settlement base rates for each rate schedule. The comparison between present and settlement rates and resulting bill impacts for the Residential Natural Gas Service Rate 60 rate schedule is shown on Exhibit___(EJP-9), Schedule 3.

Below is a brief discussion of the issues that Staff identified in the case and Staff's view of the resulting settlement of each issue. Unless otherwise noted, all changes discussed below are changes from the Company's filed position.

RATE BASE AND OPERATING INCOME ADJUSTMENTS

Test Year Per Books Rate Base – The Company proposed a test year per books rate base using the year-end balances as of December 31, 2022. The settlement revised this to an average rate base consisting of the average of the 13 month-end account balances, December 31, 2021, through December 31, 2022. This change decreases rate base by approximately $1,316,000. This decrease to rate base results in a decrease to the revenue deficiency of approximately $117,000.

Plant Annualization – Since the Company proposed a test year rate base using the year-end balances as of December 31, 2022, test year plant[3] was already annualized in the Company's proposal. However, since the settlement revises MDU's per books test year to be based on an average rate base, the settlement also annualizes non-operating income-producing plant. This adjustment increases rate base by approximately $2,676,000, which results in an increase to the revenue deficiency of approximately $237,000.

Plant Additions – MDU's proposed *pro forma* rate base included estimated capital costs associated with projects projected to be in-service by the end of 2023. The settlement revises MDU's post-test year plant adjustment to exclude projects identified as growth related and to include the actual, rather than estimated, costs for projects that were in-service as of December 31, 2023. These changes decrease rate base by approximately $2.155 million, resulting in a decrease to the revenue deficiency of approximately $191,000.

The impact on depreciation expense associated with the plant adjustments is included in the depreciation adjustment discussed below.

Depreciation and Amortization Expense – MDU's proposed *pro forma* depreciation expense was based on its proposed depreciation rates applied to the proposed *pro forma* plant in-service amounts. MDU's proposed depreciation rates were based on the depreciation study performed by MDU's consultant, Mr. Larry Kennedy. Staff carefully reviewed Mr. Kennedy's depreciation study and proposed certain adjustments. However, for settlement purposes, the Parties agreed to utilize MDU's proposed depreciation rates for all accounts, excluding Account No. 376 (Distribution Mains). The agreed-upon rates result in a compromise between Staff's proposed depreciation rates and the Company's proposed depreciation rates, reducing depreciation expense compared to MDU's filed case. The settlement depreciation rates are just and reasonable in Staff's opinion.

The settlement depreciation rates are applied to the settlement *pro forma* plant in-service resulting in an approximate $756,000 decrease to the Company's filed depreciation expense and a corresponding decrease to the revenue deficiency.

Vehicles and Work Equipment – The Company charges depreciation expense for vehicles and work equipment to clearing accounts rather than to specific depreciation accounts. The clearing accounts in which the expense are recorded are O&M expense accounts which are identified for vehicles or work equipment. MDU proposed to adjust the vehicles and work equipment expenses to reflect the results of its depreciation rate study and to reflect its proposed *pro forma* plant for the associated vehicles and work equipment accounts. The settlement revises the adjustment based on the settlement *pro forma* plant and settlement depreciation rates. This adjustment increases operating expense and the revenue deficiency by approximately $285,000.

Accumulated Reserve for Depreciation – MDU proposed a rate base adjustment to reflect the corresponding impact of its proposed depreciation expense adjustment on the accumulated depreciation reserve. The settlement revises the Company's adjustment to reflect the test year average *pro forma* accumulated depreciation, which also recognizes the settlement *pro forma* plant and the agreed-upon depreciation rates discussed above. The settlement depreciation reserve adjustment

[3] Including operating income-producing plant and non-operating income-producing plant.

increases rate base by approximately $378,000 and increases the revenue deficiency by approximately $34,000.

ADIT on Plant – This adjustment reflects the impact on test year accumulated deferred income taxes resulting from the settlement *pro forma* plant. The settlement ADIT adjustment decreases rate base by approximately $81,000 and decreases the revenue deficiency by approximately $7,000.

Book/Tax Depreciation on Plant Additions – The Company proposed an adjustment to deferred income taxes associated with 2023 plant additions. The settlement revises MDU's adjustment based on the settlement *pro forma* plant additions. Due to the offsetting adjustment to federal income taxes currently payable, this adjustment has no impact to the revenue requirement other than *de minimus* changes to the cash working capital.

Other Working Capital Updates – The settlement reflects the average balances for materials and supplies, prepaid insurance, and customer advances using a more recent actual 13-month period ending December 31, 2023. This adjustment also includes a partially offsetting accumulated deferred income tax adjustment for customer advances for construction. The net effect of these changes decreases rate base by approximately $739,000 and decreases the revenue deficiency by approximately $66,000.

Unamortized Gain/Loss on Debt – The Company proposed an adjustment to reflect the year-end December 31, 2023 balance for unamortized loss on debt and its associated accumulated deferred income tax. The settlement reflects a 13-month ending December 31, 2023 average for unamortized loss on debt and a partially offsetting accumulated deferred income tax adjustment. The net effect of this change decreases rate base by approximately $4,000 and decreases the revenue deficiency by approximately $300.

Unamortized Redemption of Preferred Stock – The Company proposed an adjustment to reflect the year-end December 31, 2023 balance for unamortized redemption of preferred stock. The settlement reflects a 13-month ending December 31, 2023 average for unamortized redemption of preferred stock. This changes the pro forma rate base amount; however, given the revised per books to a 13-month average discussed above, there is no change in the value of this adjustment from the proposed amount.

Pensions and Post-Retirement Benefits Other Than Pensions ("OPEB") – MDU's cash contributions to its pension and OPEB funds have exceeded its actuarily determined pension and OPEB expenses. The actuarily determined expense is the amount that is recognized for ratemaking purposes. Thus, the excess cash contributions have created prepaid pension and OPEB assets on MDU's financial statements. MDU is requesting that these prepaid assets be included in rate base and thereby earn a return on the excess contributions. If it were not for the excess cash contributions, MDU's pension and OPEB expenses would be much higher than what they are now. This would result because a portion of the pension and OPEB expense determination is a credit for the return earned on pension assets. Without the excess contributions, the earned return on pension assets will be lower, resulting in a higher periodic pension and OPEB expense, and therefore, higher utility rates. That is, MDU's customers are already being compensated for the earnings on excess cash contributions in the form of lower pension and OPEB expenses. In discovery, MDU stated that its proposed rate base inclusion of the pension and OPEB assets has been accepted (or at least not rejected) by all of its state regulators except South Dakota. Therefore, Staff believes it is reasonable for MDU to include the pension and OPEB assets in its South Dakota rate base as well.

Cash Working Capital and Tax Collections Available – MDU's proposed rate base included an allowance for cash working capital based on a lead-lag analysis. A lead-lag analysis examines the timing of the Company's receipt of service revenues from customers in relation to the Company's payments to vendors and employees. Staff carefully examined MDU's revenue lag and expense lead day determinations and made the following modifications:

1. Included a separate expense line item in the analysis for vacation pay expenses and assigned a lead day using the standard turnover rate calculation;
2. Included a separate expense line item in the analysis for injuries and damages expenses and assigned a lead day using the standard turnover rate calculation;
3. Used the standard turnover rate calculation for uncollectible accounts expense;
4. Revised revenue lag days to remove payment processing time for payments made by check and decreased the collection lag to the statutory number of days before a late payment charge can be applied;
5. Revised expense lead days for federal unemployment tax, state unemployment tax, state gross receipts tax, and federal income tax to properly reflect the statutory payment deadlines for federal and state taxes and to keep consistent the lead days used for other utilities;
6. Revised expense lead days for interest on long-term debt;
7. Calculated a separate rate base deduction for certain tax collections the Company receives from customers in advance of the time that MDU has to turn the related payments over to the taxing authorities; and
8. Revised expenses to reflect the impacts of the settlement *pro forma* operating expense.

These modifications decreased rate base by approximately $1,474,000 and decreased the revenue deficiency by approximately $131,000.

Excess Deferred Income Taxes ARAM – The settlement in Docket GE17-003[4] requires MDU to amortize its excess plant-related accumulated deferred income tax (ADIT) using the Average Rate Assumption Method (ARAM), which the Company did in its original filing. The settlement accepts this MDU's deferred tax adjustment; however, it revises the rate base portion of the adjustment to reflect the average balance rather than the year-end. This decreases rate base by approximately $125,000 and decreases the revenue deficiency by approximately $11,000.

Current Rates – MDU proposed to adjust test year revenues by restating the per books consumption at current rates. Also included was an adjustment to reflect an annual gas cost for 2023, exclusive of the surcharge adjustment, and elimination of the unbilled revenue. The settlement accepts all portions of MDU's current rates adjustment.

Weather Normalization – Staff's independent analysis of weather-related usage showed that usage for the Residential, Firm General, and Large Interruptible Transportation rate classes was weather sensitive and that usage in the remaining rate classes was not weather-sensitive. The settlement accepts MDU's weather normalization adjustments for the three classes it determined were weather sensitive but uses test year sales and usage volumes and revenues for the remaining rate classes.

The settlement also removes the test year customer growth annualization component of MDU's revenue adjustment since income-producing plant added during the test year and its associated

[4] In the Matter of Staff's Request to Investigate the Effects of the Tax Cuts and Jobs Act on South Dakota Utilities

depreciation expense were not annualized in adherence to the matching principle. The net effect of this adjustment decreases operating revenues and increases the revenue deficiency by approximately $537,000.

Other Revenue – MDU proposed several adjustments to test year other operating revenue based on either two-year or three-year averages, test year annualization, or a complete removal in the case of the Conservation Tracking Adjustment (CTA) revenue. The settlement does not adjust the other revenue items that did not have a significant year-to-year variance. In addition, the settlement provides the following:

1. Removed all late payment revenues, because customer late payments are not considered in the cash working capital allowance;
2. Removed the CTA revenue, because CTA revenue is returned through the annual CTA filing;
3. Adjusted the transport and sales penalty revenue to reflect a five-year average to account for year-to-year variability and an accounting error that was made during the test year, which was corrected in 2023; and
4. Adjusted the general office cost of service revenue to its 2023 level to reflect the increase in 2023 that resulted from the Knife River spinoff, which is expected to have a continuing impact going forward.

These modifications decreased revenue and increased the revenue deficiency by approximately $15,000.

Cost of Gas – The Company proposed to adjust the cost of gas to reflect *pro forma* sales volumes based on its weather normalized sales, its projected 2023 cost of gas, and a 1.00% distribution loss factor. The settlement cost of gas reflects *pro forma* sales volumes developed in the Settlement weather normalization adjustment. The effect of this adjustment decreases expenses by approximately $365,000.

Labor – The Company proposed to adjust test year labor expense by removing costs related to the Gas Conservation Rebate program, applying a 3.96% increase to test year labor expenses, and using an average target level of 12.21% of straight time and vacation pay for incentive compensation. The settlement reflects the removal of the Conservation Labor, the 3.96% weighted wage and salary increase, and the removal of financial based incentives in the Bonuses & Commissions sub account, as well as the removal of executive portion of the incentive compensation sub account. This settlement also stipulates that if incentive compensation is not paid during a calendar year, the money included in base rates will be put into a separate account and be refunded in the next rate case. The effect of this adjustment decreases expenses and the revenue deficiency by approximately $427,000.

Benefits – The Company's filing removed test year costs related to the Gas Conservation Rebate program, included estimated benefit costs for additional employees, increased medical/dental and pension expenses based on estimates. MDU's filing also reflected an estimated decrease in post-retirement benefits expense, and increases to 401-K, workers compensation, and other benefits to align with the straight time labor increase. The settlement reflects actual medical/dental costs for 2023, which have risen every year since 2020. The settlement also reflects a five-year average for pension, post-retirement benefits, 401-K, workers compensation, and other benefits to account for the volatility in those accounts. The effect of this adjustment decreases expenses and the revenue deficiency by approximately $132,000.

Subcontract Labor – The Company adjusted subcontract labor by estimating increased line locating and leak survey costs. The settlement reflects actual 2023 costs for all subcontract labor accounts. Subcontract labor costs have been increasing consistently since 2020 therefore an average was not appropriate in this instance. The effect of this adjustment decreases expenses and the revenue deficiency by approximately $91,000.

Materials – The Company increased test year materials expense by 9.4%. The settlement reflects a three-year average for all materials expense accounts. A three-year average appropriately accounts for the year-to-year variability of expenses in this account. The effect of this adjustment decreases expenses and the revenue deficiency by approximately $85,000.

Company Consumption – The Company adjusted test year gas usage in Company buildings using the ratio of firm sales revenues to annualized weather normalized sales at current rates. The settlement includes an adjustment in the gas usage in Company buildings that reflects the ratio of total usage to the agreed-upon total weather normalized usage. The effect of this adjustment increases expenses and the revenue deficiency by approximately $5,000.

Postage Expense – 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 2022. This settlement accepts this adjustment.

Uncollectible Accounts – MDU adjusted test year uncollectible accounts expenses by using the five-year average ratio of net write-offs to revenues applied to the Company's determination of *pro forma* sales revenues. The settlement reflects the five-year average net write-off ratio applied to Staff's *pro forma* sales revenues. The five-year average net write-off ratio also was applied to Staff's revenue deficiency. The effect of this adjustment increases expenses and the revenue deficiency by approximately $7,000.

Advertising – MDU removed advertising expenses that should not be charged to customers. The settlement accepts this adjustment and removes additional advertising costs that 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 and the revenue deficiency by approximately $9,000.

Insurance – MDU adjusted test year insurance expense using its projected expenses for 2023 and a five-year average of self-insurance expenses. The settlement reflects actual 2023 insurance expenses and a five-year average of self-insurance expenses. The effect of this adjustment increases expenses and the revenue deficiency by approximately $19,000.

Software Maintenance – MDU adjusted its test year software maintenance expense using a three-year average. The settlement updates the test year software maintenance expense to the 2023 actual software expense. The effect of this adjustment decreases operating expenses and the revenue deficiency by approximately $16,000.

Industry Dues – MDU adjusted test year industry dues expense by removing some that provides no benefits to South Dakota customers. The settlement accepts MDU's adjustments and removes additional industry dues expenses related to lobbying and other 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 and the revenue deficiency by approximately $60,000.

Annual Easements – MDU adjusted the test year easement expense to include radio tower leases in support of a new 2-way radio replacement as well as an increase in contractual wind farm easements. This settlement accepts MDU's adjustment.

Regulatory Commission Expense – MDU proposed to amortize projected rate case costs of $612,533 over a five-year period, plus a three-year average of ongoing regulatory commission expense and include the average unamortized amount in rate base. MDU's projected rate case costs were based on an assumption of a litigated case. This settlement reflects a five-year amortization of $250,163 in rate case expense, including a three-year average of ongoing regulatory commission expense, and reflects the average unamortized amount in rate base. The reduced rate case expenses are a result of the Parties working together to achieve a settlement, avoiding additional costly and unnecessary litigation. The effect of this adjustment decreases rate base by approximately $385,000, operating expenses by approximately $71,000, and the revenue deficiency by approximately $106,000.

Office Expense – MDU proposed a normalizing adjustment to reflect the average costs of office supplies from 2018 to 2022. The settlement accepts this adjustment.

Other O&M – MDU proposed an adjustment to test year Other O&M expenses to remove costs associated with the Conservation Program Tracking Mechanism. The settlement accepts this adjustment.

Ad Valorem Taxes – MDU restated *ad valorem* taxes to the *pro forma* level of plant in service, using the test year ratio of *ad valorem* taxes to plant. The settlement revises this adjustment to reflect *ad valorem* taxes corresponding to the settlement level of plant in service, using the test year ratio of *ad valorem* taxes to plant. This effect of this adjustment decreases operating expenses and the revenue deficiency by approximately by approximately $21,000.

Payroll Taxes – The Company proposed a payroll adjustment to reflect 2023 wage increases. MDU's payroll tax calculation did not include payroll expenses related to the South Dakota Gas Conservation Rebate program. Staff agreed the pay increases would have a similar impact on payroll tax expense but made one modification to MDU's adjustment. Staff revised the *proforma* increase to exclude taxes on the portions of incentive compensation relating to financial goals, which are removed from MDU's cost of service. These modifications decrease operating expense and the revenue deficiency by approximately $29,000.

Interest Synchronization – MDU proposed an adjustment to synchronize the tax deduction for interest expense with the weighted cost of long-term debt and short-term debt and the historic test year rate base as adjusted for known and measurable changes. The settlement modifies this adjustment to use the settlement *pro forma* rate base and the settlement weighted cost of long-term debt. This modification increases tax expense and the revenue deficiency by approximately $33,000.

Elimination of Closing/Filing – For any given year, MDU records estimates on its books for income taxes. The Company's tax returns are generally filed in the year following the tax year. There are differences between the estimated amounts that were booked during the tax year and the final amounts that show up on the tax return the following year. Therefore, once the tax return is prepared and filed, MDU records a reconciliation or true-up entry for the difference between the previous estimate and the final tax amounts. During the 2022 test year in this case, MDU recorded a true-up entry correcting its 2021

tax year estimates. For ratemaking purposes, it is proper to eliminate this true-up entry since it relates to 2021 operations. Staff accepted and the settlement includes MDU's out-of-period reconciliation adjustment.

COST OF CAPITAL AND RATE OF RETURN

MDU initially proposed a capital structure consisting of 5.268 percent short-term debt, 44.340 percent long-term debt, and 50.392 percent common equity. Staff challenged MDU's inclusion of short-term debt in its capital structure. Short-term debt is not commonly included in capital structure for ratemaking purposes because the rate base generally represents capitalized assets of longer than one year duration. In the settlement of MDU's 2015 dockets (EL15-024 and NG15-005) Staff took notice of MDU's atypical capitalization but accepted it for settlement purposes citing case specific circumstances including the fact that at the time short-term debt was less costly than long-term debt. In this case circumstances have changed. Federal Reserve monetary policy designed to bring down current levels of inflation has created an "inverted yield curve" in which short-term debt is more costly than long-term debt, and this is reflected in the cost rates of the current proceeding, with short-term debt in MDU's proposed capital structure at a cost of 5.929 percent and long-term debt at a cost of 4.503 percent. Staff's position is that ratepayers should not be burdened by the impact of current Federal Reserve monetary policy on MDU's decision to finance its capital structure in such atypical fashion. Had MDU pursued common utility practice it would have issued larger amounts of long-term debt over time as capital projects funded by short-term debt go into service. In developing a capital structure fair to ratepayers and more reflective of typical utility practice, Staff treated the short-term debt in MDU's capital structure as long-term debt repriced at the current embedded cost of long-term debt. MDU was opposed to Staff's position on the matter, but agreed to accept Staff's position for settlement purposes as long as the same methodology is utilized in future rate cases as well.

[Begin Confidential]

[End Confidential], the settlement overall rate of return is 7.01 percent.

RATE DESIGN ISSUES

The settlement position reached between Staff and MDU on all issues regarding rate design and the class revenue distribution is discussed below.

Class Cost of Service/Spread of the Increase – MDU initial filing included a class cost of service study (CCOSS). Studies of this nature, if performed carefully and objectively, can be useful tools in apportioning revenue responsibility fairly among the rate classes and in designing unit charges within rate classes. The results of the Company's CCOSS indicate that the Residential and Small Firm General Service classes are currently contributing less than the systemwide average rate of return. The CCOSS

also indicates that the Large Firm General, Small Interruptible Sales & Transportation, and the Large Interruptible Sales & Transportation classes are currently contributing more than the systemwide average rate of return.

Staff's biggest concern with MDU's CCOSS is the Company's use of the "Minimum Distribution System" (MDS) to classify a significant portion (27.8%) of distribution mains to the customer cost category and allocated among the classes based on the number of customers on MDU's South Dakota system. The remaining 72.2% of distribution mains were classified as demand related and were allocated based on class contribution to peak day demand. It is that portion of the distribution system that MDU classified to the customer cost category to which Staff objects. MDU's distribution mains are sized and operated to meet its peak day demands and not the number of customers served. MDU's mains are not sized to meet minimum or zero load usage. Removing the MDS from the CCOSS resulted in moving all classes closer to their allocated costs, except for the Small Firm General class, which remained slightly below allocated costs. Rather than engage in a protracted debate at hearings on the theoretical merits of the MDS, the parties agreed to, and the settlement provides for, a uniform percentage increase in base rate revenues for all classes.

Rate Design (Residential Customer Service Charge) – MDU's present rate schedules contain a $0.30/day ($9.12/month) customer charge for the Residential Rate 60 class. MDU proposed to nearly double this charge to $0.55/day ($16.72/month). MDU claimed that its cost studies support an even higher Residential monthly customer charge, $22.11/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 $0.32/day ($9.73/month) customer charge for the Residential Rate 60 class.

OTHER ISSUES

Rate Moratorium – The Parties agree that MDU shall not file any rate application for an increase in base rates that will go into effect prior to March 1, 2027, subject to the occurrence of certain extraordinary events.

Implementation of Rates – The tariffs found in Exhibit A attached to the Settlement Stipulation are intended to become effective for services rendered on and after September 1, 2024. Customer bills will be prorated so that usage prior to the implementation date will be billed at current rates. Usage on and after the effective date will be billed at the new rates.

Interim Rate Refund – MDU implemented interim rates that became effective March 1, 2024. The agreed-upon revenue deficiency results in a revenue increase that is less than the interim rate level. In the Settlement, the Company agreed to issue refunds to customers for the difference between interim rates and the permanent rates for usage during the period March 1 through August 31, 2024. The amount to be refunded includes interest calculated by applying a 7% annual interest rate to the average refund balance for each month that interim revenues were collected. The detailed refund plan is provided as Exhibit C to the Stipulation.

RECOMMENDATION

Staff recommends the Commission approve the Settlement for the reasons stated above.