

Montana-Dakota Utilities Co. (MDU) Residential Bill Review

Each month when NorthWestern Energy and Montana-Dakota Utilities Co. customers receive a utility bill, they are also receiving a snapshot of Montana law. In some cases the law may be the reason for a charge, and in other cases those laws serve as a safeguard against additional charges. While the Montana Legislature passes and approves those energy policies that effect customer's bills, the Montana Public Service Commission (PSC) enforces those polices and oversees their implementation.

Every public utility is required to furnish reasonably adequate service and facilities. The charge made by any public utility for any heat, light, power, water, or regulated telecommunications service produced, transmitted, delivered, or furnished or for any service to be rendered as or in connection with any public utility shall be **reasonable and just**, and every unjust and unreasonable charge is prohibited and declared unlawful. 69-3-201, MCA.

It is the duty of the PSC to decide what is reasonable and just when it comes to the costs passed on to Montana utility customers. The Montana Consumer Counsel, a position required by the Montana Constitution, represents Montana public utility consumers before the PSC, state and federal courts, and administrative agencies in matters concerning public utility regulation.

The information provided below attempts to walk customers through a monthly bill and explain those charges, while tying that information back to Montana law and actions overseen by the Montana PSC.

Every public utility shall file with the commission, within a time fixed by the commission, schedules which shall be open to public inspection, showing all rates, tolls, and charges which it has established and which are in force at the time for any service performed by it within the state or for any service in connection therewith or performed by any public utility controlled or operated by it. Every public utility shall file with and as a part of such schedule all rules that in any manner affect the rates charged or to be charged for any service. 69-3-301, MCA.

MDU – Electricity

MDU is a regulated utility that serves about 25,000 electric customers. When the Montana Power Company was pursuing deregulation back in 1997, MDU worked to ensure that the legislation allowed them to be exempt from the change. In much of Montana law, Title 69, MCA, there are references to a “vertically integrated” utility or a utility “no portion of which lies within the basin of the Columbia River”. To simplify – that is MDU.

Because MDU has always been a vertically-integrated, regulated utility, its customers have always bought both energy supply and delivery services from the utility. And a look

at an MDU bill is an easier story to tell – because MDU provides all generation, transmission, and distribution services to its customers. The ratemaking process used by MDU is overseen by the Montana PSC. The process is outlined in Title 69, chapter 3, part 3, MCA.

The MDU bill provided as an example is for an approximately 1,300 square foot home and garage that use natural gas for heat and also have electric service from MDU. The bill accounts for usage between October 9 and November 4, 2013. The total monthly usage at 916 kWh is slightly higher than average residential usage, which is 750 kWh. The average, however, is based on an average of 12-months. Weather often dictates month-to-month use.

The charges on a MDU customer's bill are bundled. Energy costs for electricity include generation, transmission, and delivery. MDU generates, transmits, and distributes electricity for its customers.

Electricity

Basic Service Charge:

Basic Service Charge = **\$4.86**

The basic service charge is 18 cents a day, and the billing period is 27 days for a total of \$4.86. This is not related to how much energy a customer uses. The basic fee is sometimes called a “meter” fee. The charge is designed to recover a portion of the fixed costs incurred by MDU in providing electric service to its customers.

Electricity supply:

Electricity supply = 916 kWh x \$0.04816 = **\$44.11**

The next fee on the customer's bill is the electricity consumed at the residence. A monthly bill is based on kWh used, in total, at the end of each month. Use or consumption is the basis of this charge. One watt-hour is the equivalent of 1 watt of power used for 1 hour. On the MDU bill, the customer used 916 kWh during the billing period. MDU bills its customers for supplying and delivering your energy, and is charged on a per unit basis at \$0.04816 per kWh. But how does MDU arrive at this roughly 5 cent per kWh charge?

The charge for a residential MDU user is often referred to as “Rate 10”. This is the rate authorized by the PSC and applicable in all communities served for single-phase residential electric service for domestic purposes. The energy charge varies based on the seasons: October – May 4.816 cents per kWh and June – September 6.813 cents per kWh. It includes the fixed-costs for the generation, transmission, and distribution facilities MDU uses to meet its customer's needs. MDU owns a number of electric generating resources and co-owns a portion of its electric generating capacity with other utilities. MDU's generation, located throughout Montana, North Dakota, and South Dakota is utilized to serve the customers it serves in those three states through the interconnected transmission system. In Montana, MDU owns:

- Lewis & Clark Station – Sidney -- 50 megawatts
- Glendive Combustion Turbines – Glendive -- 75 megawatts
- Miles City Combustion Turbine – Miles City -- 25 megawatts
- Diamond Willow Wind Farm – Baker -- 30 megawatts

In August 2010, MDU filed an application with the PSC to increase its electric service rates in Montana. According to MDU, the reasons for the proposed rate increase were: increased investments in facilities, including in two wind farms; declining revenues from wholesale power sales; and recovery of development costs of three proposed, but subsequently abandoned, coal-fired generation projects in North Dakota and South Dakota. The PSC adopted a negotiated settlement between MDU and the Montana Consumer Counsel, setting the increase at about half what MDU had asked for. (Docket No. 2010.8.82 Order No. 7115d).

The PSC approves rates that allow MDU to earn a reasonable profit. MDU also pays state and local taxes as well as fees for the Consumer Counsel and the PSC. Those fees are part of MDU’s rates. They are only adjusted up or down when MDU applies for a general rate case.

Fuel and Purchased Power:

Fuel and Purchased Power = 780 kWh x \$0.0271 = **\$21.14**

Fuel and Purchased Power = 136 kWh x \$0.02649 = **\$3.60**

A base fuel and purchased power cost is established in a general rate case that is approved by the PSC. MDU files a monthly application with the PSC showing the calculation of fuel and purchased power adjustments. (69-3-302, MCA)

Fuel and purchased power costs can be the largest variable for a utility, depending on supply and demand and other factors. Those costs are then passed along to customers, through a charge, often called a “fuel adjustment fee”. Regulated utilities can’t profit from increased fuel and purchased power costs. On the MDU bill reviewed for the service period October 9 through November 4, the fuel and purchased power cost for the usage of 780 kWh in October was at \$0.0271 and the fuel and purchased power cost for the remaining 136 kWh in November were at \$0.02649. The example bill shows two lines for fuel and purchased power costs because the fuel and purchased power charged changed within the service period on November 1.

The charge recovers the fuel and purchased power costs that MDU incurs in supplying its customers with electricity. The cost is subject to change on a monthly basis for Montana, North Dakota, and South Dakota customers. MDU submits a fuel and power cost tracker with the PSC to adjust the base cost of fuel for these monthly fluctuations in the fuel and purchased power costs. Those fluctuations are required to be trued up on an annual basis.

USBC:

$$\text{USBC} = 916 \text{ kWh} \times \$0.001566 = \mathbf{\$1.43}$$

Universal system benefits programs are established for the state of Montana to ensure continued funding of and new expenditures for energy conservation, renewable resource projects and applications, and low-income energy assistance. 69-8-402, MCA

The Universal System Benefits program (USB) requires all utilities in Montana to spend money on activities related to energy conservation, renewable energy projects, and low-income energy assistance. On a residential MDU bill, the charge is \$0.001566 per kWh.

USB legislation was enacted in 1997 at the time of electric deregulation in an effort to ensure the continued existence of public purpose programs by regulated utilities. The Legislature determined that a minimum 17 percent of total USB funds should be dedicated to low-income programs. There are no minimal funding requirements for conservation and renewable projects.

USB money is collected through customer bills and began in 1999. Each interim, the Energy and Telecommunications Interim Committee of the Legislature is required to review the USB programs and, if necessary, submit recommendations regarding these programs to the Legislature.

For electricity, the base funding level for each utility is fixed: 2.4 percent of the utility's annual retail sales revenue in Montana for calendar year 1995. The customer's distribution utility is required to collect USB funds from the customer. The PSC sets USB rates for utilities.

Summary of MDU Energy Bill – Electricity (Oct. 9 – Nov. 4)

Basic Charge = **\$4.86**

Electricity supply = **\$44.11**

Fuel and Purchased Power = **\$24.74**

USBC = **\$1.43**

Total Electric Charges = \$75.14

Montana-Dakota Utilities – Natural Gas

MDU serves about 81,000 natural gas customers in Montana in eastern Montana, including Billings. MDU purchases gas supplies under a number of contracts from about 20 to 25 suppliers located within the region and Canada and contracts for the use of storage facilities located in Montana and Wyoming. Commodity prices and pipeline rates fluctuate.

While Montana's largest utility pursued customer-choice options for natural gas service to all customers, MDU did not. MDU is a local distribution company providing natural gas service to its customers in Montana and is a public utility. The PSC has jurisdiction over public utilities pursuant to Title 69, Ch. 3, MCA. MDU offers transportation service to its larger customers with the ability to interrupt the use of natural gas upon request to do so. The transportation service customers purchase their natural gas requirements from a third party supplier.

The MDU bill provided as an example is for an approximately 1,300 square foot home and garage that use natural gas for heat and also have electric service from MDU. The bill accounts for usage between October 9 and November 4. The total monthly usage is 9.1 dekatherms, which is slightly less than the average residential usage of 120 dekatherms a year or 10 dekatherms a month. The average is determined over a year, with higher use in the winter months and minimal use in the summer.

Basic Service Charge:

Basic Service Charge = **\$6.35**

This is a flat fee that a customer pays each month, regardless of how much natural gas a customer uses. It is a fee for interconnection to the utility's service. It includes a portion of the fixed costs associated with the delivery of natural gas including the cost of reading and maintaining a meter.

In 2012 MDU filed a request with the PSC for an overall increase of about 6 percent in its natural gas rates. The Montana Consumer Counsel negotiated a proposed settlement with MDU to set the increase at 2.6 percent – about \$2 million less in revenue than initially requested by MDU. (Docket No. D2012.9.100 Order No. 7254b).

The overall increase included an increase in the monthly flat fee, as well as an increase in distribution rates.

Distribution Delivery:

Distribution Delivery = 9.1 Dk x \$1.126 = **\$10.25**

This is the cost of the natural gas pipelines in the streets and alleys that bring gas to a home. Each utility has its own costs of maintaining its distribution system, and under state law, utilities are allowed to recover those costs in rates charged to customers.

The 2012 increase requested by MDU, discussed above, was needed to cover the costs of \$36 million in investments made by MDU to the Montana gas distribution system since 2004, including a new landfill gas production plant, a new automated meter-reading system, and a new regional operations building. The final agreement, approved by the PSC, did not require MDU customers to pay for the utility's investment at the gas-producing project at the Billings municipal landfill.

Cost of gas:

Cost of gas 9.1 Dk x \$4.827 = **\$43.93**

This is the cost of gas itself as well as transportation and storage related costs MDU incurs from its pipeline suppliers in providing natural gas service. The cost is strictly a pass-through to customers and does not provide MDU with a profit. The cost of gas is also subject to change on a monthly basis through gas cost-tracking adjustment filings submitted to the PSC.

This charge is the amount gas consumed at the residence. A monthly bill is based on dekatherms used, in total, at the end of each month. A therm is equal to about 100 cubic feet of natural gas. Your use or consumption is the basis of this charge. On the MDU bill, the customer used 9.1 dekatherms under the rate of about \$4.83.

But how does MDU decide to charge those rates per dekatherm for natural gas? And why do they change?

MDU procures and manages a natural gas portfolio of natural gas contracts and MDU-owned production from various sources to meet the needs of its customers. The majority of its supply contracts is firm and priced by reference to a market index. The PSC does not regulate the wholesale market price of gas. Those prices are set in the national wholesale market, which was deregulated by the federal government in 1978.

While it doesn't appear on the example bill, MDU also files an annual Conservation Program Tracking Mechanism Rate 90 tariff, or Conservation Tracking Adjustment (CTA) with the PSC, to recover gas conservation program expenditures and lost distribution revenues.

USBC:

USBC = 9.1 Dk x \$0.0655 = **\$0.60**

The USB charge for natural gas in Montana is established in statute but is not as clear as the electric requirement. (69-3-1408, MCA) The law requires the PSC to determine the actual charge, but it requires that at least .42 percent of the natural gas utility's annual revenue in gas sales be dedicated to low-income weatherization and low-income energy bill assistance.

PSC rules currently require natural gas utilities to spend at least 1.12 percent of their previous year's natural gas revenues on USB programs. The natural gas USB, because of the flexibility afforded in adjusting the rate, has been the subject of much discussion in the past at the PSC.

A natural gas utility shall implement, upon commission approval and subject to ongoing commission oversight and direction, a universal system benefits program.69-3-1408, MCA.

Interim Adjustment:

Interim Adjustment = **\$0.75**

When MDU applied for a natural gas rate increase in 2012, the PSC was allowed 9 months to issue a final decision. However, within that timeframe a utility can apply for interim rates, and MDU did make that application.

In April 2013, the PSC approved an interim rate increase to be applied to retail sales bills, excluding the cost of gas and before any applicable taxes. The interim increase was applied as a percent of each customer's natural gas service bill, excluding the cost of gas and applicable taxes.

In December 2013, the PSC approved the final rates discussed previously. Those rates were not lower than the interim rates. If the final approved increase had been lower than the interim increase, MDU would have refunded the difference to its customers with interest.

The new rates were effective with service rendered on or after December 15, 2013.

**Summary of MDU Bill-- Natural Gas
(Oct. 9 – Nov. 4)**

Basic Service Charge = **\$6.35**

Distribution Delivery = **\$10.25**

Cost of Gas = **\$43.93**

USBC = **\$0.60**

Interim Adjustment = **\$0.75**

Total Natural Gas = \$61.88

**Total MDU bill = Total Electricity (\$75.14) + Total Natural Gas (\$61.88)
= \$137.02**