



Montana-Dakota Utilities Co.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Gas Rate Schedule

NDPSC Volume 8
1st Revised Sheet No. 62
Canceling Original Sheet No. 62

GAS SERVICE EXTENSION POLICY Rate 120

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This rate schedule outlines the policy of Montana-Dakota Utilities Co. for gas extensions necessary to provide firm and interruptible sales service and interruptible transportation service to customers.

(A) General Rules and Regulations Applicable to all Gas Service Extensions.

1. An extension will be constructed without a contribution if the estimated capital expenditure is cost justified as defined in (A)3 below.
2. The Company shall require customer or developer cost participation if the estimated capital expenditure is not cost justified.
3. The extension will be considered cost justified if the calculated maximum allowable investment equals or exceeds the estimated capital expenditure using the following formula:

Maximum Allowable Investment (MAI) =

$$\frac{\text{Annual Basic Service Charge} + (\text{Project's Estimated 5}^{\text{th}} \text{ Year Annual Dk x Distribution Delivery or Demand Charge})}{\text{LARR}}$$

where: LARR = Levelized Annual Revenue Requirement Factor of 12.328%

4. The cost of the firm gas extension shall include the gas main extension(s), valves, service line(s), any required payments made by the Company to the transmission pipeline company to accommodate the extension(s), any permits required to construct the extension, and other costs up to, and including, the riser.

The cost of an interruptible gas extension project shall include the gas main extension(s), valves, service line(s), regulators, meters, any required payments made by the Company to the transmission pipeline company to accommodate the extension(s), any permits required to construct the extension, and other costs up to, and including the riser. Any remote data acquisition equipment costs required shall be subject to the terms and conditions of service specified in the applicable interruptible service rate schedule.

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The service line is that portion of the gas service extending from the gas main to the connection at the house regulator and/or meter.

5. The cost of an extension shall reflect those costs necessary to serve the new load using sound engineering and cost estimating standards. The engineering, design, and method of construction shall be determined by the Company in accordance with its construction standards. The location and route of the extension shall be established by the Company.

Nothing contained herein shall prohibit the Company from installing additional facilities in excess of those used to calculate the cost of the extension, if such facilities are reasonably justified by anticipated future load to be served, or where such additional facilities will be used for general system improvement or reasonable orderly development. Costs above the minimum required to serve the load requested by the customer will be considered system betterment costs and paid by the Company. The cost to upgrade existing facilities or the installation of new facilities that are mutually beneficial will be shared pro rata based on load, where applicable.

Any additional facilities installed as part of an extension project that have been designated as system betterment in accordance with this paragraph will be listed individually with supporting details and justification in the Company's next general rate case.

6. A customer or developer extension may also be subject to additional costs that may not be considered part of the extension and may be separately charged to the customer or developer. The following is not an all-inclusive list, but includes some additional costs that may be incurred for an extension:
 - a. Winter Construction: When the main or service line is installed between October 1 and April 15, inclusive, because of failure of customer to meet all requirements of the Company by September 30 or because the customer's property, or the streets leading up to, are not ready to receive the service or main by such date, such work will be subject to winter construction charges when winter conditions of ground frost and/or snow exist, for the entire length of underground service or main installed. Winter construction will not

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be undertaken by Company where prohibited by law or where it is not practical to install a service or main during the winter season. The Company reserves the right to charge the actual amount for any winter construction expenses. All winter construction charges are non-refundable and are in addition to any normal construction charges.

- b. Abnormal and/or Unusual Conditions: When abnormal conditions are present and/or unusual expenditures are incurred after the start of construction, the customer or developer will pay the Company for the excess costs incurred by the Company in order to expand the system. The Company reserves the right to charge for any abnormal and/or unusual conditions. Circumstances that cause increased installation costs for a distribution system expansion include but are not limited to rock, safety-related issues, legal challenges, routing, right-of-way acquisition, obstructions, hindrances, crop damage, governmental or third-party requirements.
- c. Changes After Start of Construction: The customer or developer shall be charged a non-refundable contribution in aid of construction for the relocation or change in planned construction methods of any Company facilities after construction is started as a result of changes in:
 - 1. Grade changes in excess of four (4) inches,
 - 2. Lot line(s),
 - 3. Site conditions including driveways, fences, or other impediments to construction,
 - 4. Easement boundaries which had previously been considered final and,
 - 5. Any other changes requested by the customer after original project costs were estimated and agreed to by customer.
- 7. All extensions are subject to the execution of the applicable extension agreement between the customer or developer and the Company.
 - a. Customer Application for Gas Service,
 - b. Customer Gas Service Extension Agreement,
 - c. Developer Gas Service Extension Agreement Type A, where project not cost justified and contribution required,

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- d. Developer Gas Service Extension Agreement Type B, where project cost justified with commitment to number of new customers, and
 - e. Large Customer Gas Service Extension Agreement.
8. Upon project completion, main extension projects greater than \$100,000 shall have their contribution amount adjusted to reflect actual costs and an additional charge may be levied or refund provided to customer as specified in the extension agreement with the customer.
9. A refund will be made only when there is a reduction in the amount of contribution required within a five-year period from the extension(s) in service date. Interest will be calculated annually by the Company on any refund amounts and shall be equal to the average commercial paper interest rate (A1/P1), not to exceed 12 percent per annum.
- No refund shall be made by Company after the five-year refund period and in no case shall the refund excluding interest, exceed the amount of the contribution.
10. The Company reserves the right to charge customer the cost associated with providing service to customer if service is not initiated within 12 months of such installation.

(B) Customer Extensions.

Cost participation for extensions where customers will be immediately available for service is as follows:

1. Contributions where project costs are less than or equal to \$500,000.
 - a. When a contribution is required, the customer(s) shall pay the Company the portion of the capital expenditure not cost justified as determined in accordance with Paragraph (A)3.
 - b. The contribution shall be made by:
 - i. A one-time payment prior to construction, or
 - ii. Payment of 25% of the contribution prior to construction and the balance in no more than twenty-four equal monthly installments. If customer discontinues service within the

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- twenty-four month period, the balance will be due and payable upon discontinuance of service, or
- iii. A minimum annual charge set forth in an agreement between customer and Company, or
 - iv. The Company, at its sole discretion, may allow the customer to post a bond or an irrevocable letter of credit in the amount of the required contribution prior to construction. Such bond, issued by a bonding company authorized to do business in the state, or letter of credit, shall be effective for the original five-year term and is subject to approval and acceptance by the Company. If at the end of the original five-year term, a contribution requirement exists in the subject project based on a recalculated maximum expenditure, the surety or guarantor shall reimburse the Company for such recalculated contribution requirement.
 - v. In the event a customer's letter of credit, bond, or other financial obligation fails to provide the required financial contribution in accordance with this section, the Company will not seek recovery of those funds in a future rate proceeding.
2. Contributions where project costs exceed \$500,000 and all Interruptible Gas Extension Projects.
- a. Customer will be provided an estimated MAI in accordance with Paragraph (A)3, but due to the size of these projects and to ensure estimated customer load is realized, the customer will be required to contribute an amount equal to the total cost of construction prior to the start of construction.
 - b. The contribution shall be made by:
 - i. A one-time payment prior to construction, or
 - ii. The Company, at its sole discretion, may allow the customer to post a bond or an irrevocable letter of credit in the amount of the required contribution prior to construction. Such bond, issued by a bonding company authorized to do business in the state, or letter of credit, shall be effective for the original five-year term and is subject to approval and acceptance by the Company. If at the end of the original five-year term, a contribution requirement exists in the subject project based on a recalculated maximum expenditure, the surety or guarantor

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shall reimburse the Company for such recalculated contribution requirement.

3. If within the five-year review period from the extension(s) in service date, the number of active customers and related volumes exceeds the fifth-year projections used to determine cost participation, the Company shall recompute the contribution requirement by recalculating the MAI.
4. The recalculated contribution requirement shall be collected from the new applicant(s).
5. If within the five-year review period from the extension(s) in service date, an additional main extension is required to serve new customers, the additional main extension shall be considered a separate new extension. The commonly used main for the new customer(s) will be credited to the existing customer(s) projects.

6. Refund

- a. The Company will refund to the original contributor(s) the amount required to reduce their contribution to the recalculated contribution requirement. No refunds will be made for amounts less than \$25. Customers who have posted a bond or letter of credit, will be notified of any reduction in surety requirements.
- b. No refunds will be made until the new applicants begin taking service from the Company.

7. Incremental Expansion Surcharge

- a. The Company, in its sole discretion, may offer an Incremental Expansion Surcharge (Surcharge) to a project consisting of 10 or more customers requesting service when the total estimated cost would otherwise have been prohibitive under the Company's present rates and gas service extension policy. If the Company and customers mutually agree that the project will be funded through a Surcharge, the project will be designated an expansion area and the Surcharge will be applicable to all connections within the expansion area. The contribution requirement to be collected under the Surcharge shall be the amount of the capital

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expenditure in excess of the MAI determined in accordance with Paragraph (A)3.

- i. A minimum up-front payment of \$100.00 will be collected from each customer who signs an agreement to participate in the expansion.
 - ii. For projects that are expected to be recovered within a 5-year period, the Surcharge shall be set at a fixed monthly charge designed to provide recovery of the contribution requirement within the 5-year period.
 - iii. For projects that are not expected to be recovered within a 5-year period, the Surcharge shall be set at a fixed monthly charge designed to provide recovery of the contribution requirement up to, but not to exceed, ten years.
- b. The Surcharge shall remain in effect until the net present value of the contribution requirement, calculated using a discount rate equal to the overall rate of return authorized in the last rate case, is collected.
 - c. The Surcharge shall apply to all customers connecting to natural gas service within the expansion area until the contribution requirement is satisfied.
 - d. The net present value of the Surcharge will be treated as a contribution-in-aid of construction for accounting purposes.

(C) Developer Extensions.

Cost participation may be required for extensions to areas such as a subdivision or a mobile home court, in which a developer is installing roads, utilities, etc., before housing is built:

1. Contributions where project costs are less than or equal to \$500,000.

When a contribution is required, the developer shall pay the Company the portion of the capital expenditure not cost justified as determined in accordance with Paragraph (A)3.

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2. Contributions where project costs exceed \$500,000 and all Interruptible Gas Extension Projects.

Developer will be provided an estimated MAI in accordance with Paragraph (A)3, but due to the size of these projects and to ensure estimated customer load is realized, the developer will be required to contribute an amount equal to the total cost of construction prior to the start of construction.

3. The contribution shall be made by:
 - a. A one-time payment prior to construction, or
 - b. The Company, at its sole discretion, may allow the developer to post a bond or an irrevocable letter of credit in the amount of the required contribution prior to construction. Such bond, issued by a bonding company authorized to do business in the state, or letter of credit, shall be effective for the original five-year term and is subject to approval and acceptance by the Company. If at the end of the original five-year term, a contribution requirement exists in the subject project based on a recalculated maximum expenditure, the surety or guarantor shall reimburse the Company for such recalculated contribution requirement.
 - c. In the event a developer's letter of credit, bond, or other financial obligation fails to provide the required financial contribution in accordance with this section, the Company will not seek recovery of those funds in a future rate proceeding.
4. If within the five-year review period from the extension(s) in service date, an additional main extension is required to serve additional developments under a new developer the projects will be considered separate projects. The commonly used main for the new development will be credited to the existing development(s) if a new developer.
5. Refund
 - a. If within the five-year review period from the extension(s) in service date, the number of active customers and related volumes exceeds the fifth-year projections used in the cost estimate of the MAI, the

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Company shall recompute the contribution requirement by recalculating the MAI. Such recalculation shall be done annually based upon the anniversary of the extension(s) in service date.

- b. The Company will refund to the original developer which executed the extension agreement with the Company and made the contribution the amount required to reduce its contribution to the recalculated contribution requirement unless the Company has received a notice of assignment of payment from the original developer, in writing, prior to the date of the refund. The Company shall be justified in relying upon receipt or non-receipt of such notice. No refunds will be made for amounts less than \$25. Developers who have posted a bond, or a letter of credit will be notified of any reduction in surety requirements.

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