



UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street

Bismarck, ND 58501

(701) 222-7900

March 1, 2017

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501

Re: Annual Update to Infrastructure Rider
(IR) Rate 56
Docket No. EL17-____

Montana-Dakota Utilities Co., a Division of MDU Resources Group Inc. (Montana-Dakota), herewith electronically submits for Commission approval the annual update to its Infrastructure Rider (IR) rate, pursuant to the terms of the Company's Infrastructure Rider Rate 56 tariff. Montana-Dakota is proposing to continue charging the existing tariff rate of \$0.00497 per Kwh for the rate period covered by this filing.

Background

On June 15, 2016, the Commission approved a Settlement Stipulation in Docket No. EL15-024, Montana-Dakota's Application for authority to increase electric rates in South Dakota. The Settlement Stipulation established the Infrastructure Rider Rate 56 tariff, allowing for the recovery of infrastructure related charges eligible for recovery under SDCL 49-34A-73. Specifically, the Rate 56 tariff provides for the recovery of significant infrastructure costs that are not reflected in the Company's currently authorized rates and as currently approved, allows for the recovery of the Thunder Spirit Wind facility (Thunder Spirit), a 107.5 MW wind farm located in Hettinger, North Dakota.

On July 1, 2016 Montana-Dakota implemented an IR rate of \$0.00497 per Kwh for the recovery of \$358,787 in infrastructure related costs as set forth in Exhibit C of the Settlement Stipulation. This reflected the annual revenue requirement for Thunder Spirit, net of the estimated revenue collected through interim rates in effect for the months of January through June 2016, attributable to the costs to be recovered through the IR prior to the implementation of the IR rate.

Pursuant to discussions with Commission staff as described on page 19 of the Staff Memorandum Supporting the Settlement Discussion in Docket No. EL15-024, Montana-Dakota agreed to defer a portion of costs incurred in the early years of the IR to provide a smoothing effect. Both parties agreed that would result in an under recovered balance which would be offset by lower per unit charges in the later periods covered by the IR.

IR Rate Update

Montana-Dakota has prepared an update its IR rate to reflect actual costs incurred through December 31, 2016 and the projected costs through December 31, 2017. The projected 2017 costs for Thunder Spirit, as allocated to South Dakota, are \$861,064, which includes projected 2017 costs of \$669,599, an under recovery of \$181,420 for 2016 actual costs, and carrying charges based on the overall Rate of Return authorized in Docket No. EL15-024 as shown in Attachment A.

The 2016 costs to be recovered through the IR are based on South Dakota's share of the monthly plant in service balances, net of accumulated depreciation and associated deferred taxes, and operating expenses related to Thunder Spirit. The operating expenses include labor and benefits, easement charges and a maintenance agreement. Thunder Spirit depreciation and generation taxes have also been included. The production tax credits associated with the generation provided by Thunder Spirit have been included as a credit within the overall revenue requirement. These charges are compared to the actual interim revenues based on the percentage of interim revenue as presented in Exhibit C of the Stipulation and the actual revenue collected from July through December 2016 under this mechanism. The under collected balance includes a carrying charge which is based on the authorized Rate of Return applied to the prior month's ending deferred balance, net of tax. For the Projected 2017 costs, each of the items described above has been included based on the Company's most recent estimates.

As previously noted, while Attachment A does show the need for an increase in the per Kwh charge under this tariff, the Company proposes to continue charging the existing rate for the rate period covered by this filing as contemplated in the Settlement Stipulation. The amount deferred from the first year was less than initially anticipated and the deferred amount will be offset by the lower revenue requirement in subsequent years.

Pursuant to the Settlement Stipulation in Docket No. EL15-024, Montana-Dakota agreed to report annual performance of the Thunder Spirit facility. The 2016 average annual capacity factor, transmission curtailments and economic curtailments are as follows:

- A. The actual Thunder Spirit capacity factor for calendar year 2016 was 45.3% representing 427,967 MWh of generation as compared to 425,648 MWh included in Montana-Dakota's initial 2016 estimate.
- B. Thunder Spirit did not experience transmission curtailments during 2016.
- C. Economic curtailments are difficult to measure because of the 5 minute dispatch signals provided by MISO. Based on a review of all periods during the year there were 14 hours of potential economic curtailments during 2016 comprised of a summation of all periods (including the 5-minute periods) where the market price was less than Montana-Dakota's offer price. However, Thunder Spirit did not see a reduction in generation during all of the economic curtailment periods as either the project was not configured and enabled to follow a MISO dispatch signal or the duration of the event was only for a 5 minute time period for which generator reduction would not have been sent to the project. Montana-Dakota has implemented further data capturing and reporting capabilities to be able to perform more detailed calculations for its 2017 report.

The Company will comply with ARSD 20:10:13:18 by posting the Notice shown in Attachment B in a conspicuous place in each business office in its affected electric service territory in South Dakota.

The Company will pay the deposit amount required pursuant to SDCL §49-34A-75 upon the Commission's Order assessing such fee.

Please refer all inquiries regarding this filing to:

Ms. Tamie A. Aberle
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501
Tamie.aberle@mdu.com

Also, please send copies of all written inquiries, correspondence and pleadings to:

Mr. Brett Koenecke
May, Adam, Gerdes & Thompson
503 South Pierre Street
P.O. Box 160
Pierre, South Dakota 57501-0160

This filing has been electronically submitted to the Commission in accordance with ARSD 20:10:01:02:05. Montana-Dakota respectfully requests that this filing be accepted as being in full compliance with the filing requirements of this Commission.

Sincerely,



Tamie A. Aberle
Director of Regulatory Affairs

Attachments

cc: B. Koenecke