



UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

March 2, 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 Transmission Cost
Recovery Rider Rate 59
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 Transmission Cost Recovery Rider (TCRR) rate, pursuant to the terms of the Company's Transmission Cost Recovery Rider Rate 59 tariff. Montana-Dakota is requesting approval of 1st Revised Sheet No. 28.1 of its electric tariffs to be effective with service rendered on and after May 2, 2017.

The tariff change is necessary to reflect the projected charges for 2017 assessed to Montana-Dakota for transmission service provided by the Midcontinent Independent System Operator (MISO) and Southwest Power Pool (SPP), along with the projected revenues and/or credits received by Montana-Dakota for transmission related services. The proposed TCRR rate of \$0.00450 per Kwh is applicable to all electric retail rate schedules and reflects an increase of \$0.00084 per Kwh from that currently authorized.

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 Transmission Cost Recovery Rider Rate 59 tariff, allowing for the recovery of transmission related revenues and costs eligible for recovery under SDCL 49-34A-25.1. Specifically, the Rate 59 tariff provides for the recovery of new or modified transmission facilities constructed to improve the power delivery capability or reliability of the transmission system as well as federally regulated costs charged to or incurred by Montana-Dakota to increase regional

transmission capacity or reliability that are not reflected in the Company's currently authorized rates.

On July 1, 2016 Montana-Dakota implemented a TCRR rate of \$0.00366 per Kwh for the recovery of \$264,544 in transmission related costs, net of the recovery of transmission related costs that were collected through interim rates in effect for the months of January through June 2016, prior to the implementation of the TCRR rate.

At the time the current rate was established, the costs associated with the transmission service changes associated with the Western Area Power Authority (Western) and Basin Electric Power Cooperative's (Basin Electric) decision to join the Southwest Power Pool (SPP) were not fully known. Montana-Dakota had long-standing reciprocal transmission sharing agreements with both Western and Basin Electric. The Western agreement has historically been referred to as the Western Transmission Service Agreement (TSA) or the WAPA wheeling agreement and the Basin Electric agreement has historically been referred to as the Interconnection and Common Use Agreement (ICCUA). The Western TSA expired on December 31, 2015 and had to be replaced with network integrated transmission service (NITS) from SPP for usage of those transmission facilities that Montana-Dakota previously used under the Western TSA. Basin Electric and Montana-Dakota mutually agreed to suspend the ICCUA on December 31, 2015 as its origin and implementation was based upon the existence of the Western TSA. In replacement of the ICCUA Montana-Dakota agreed to take NITS service from SPP for those Basin Electric transmission facilities previously under the ICCUA which Montana-Dakota needed to support its SPP NITS service from Western's transmission system. In turn, Basin Electric is taking service for a portion of its member's load from MISO under Montana-Dakota's transmission service schedule to meet the needs of its loads previously provided service under the ICCUA.

Montana-Dakota reviewed several alternatives to taking NITS service from SPP and MISO including (1) withdrawal from MISO and joining SPP, and (2) splitting its transmission system into a MISO and SPP system. Ultimately the SPP NITS, where needed, and MISO NITS service for all load was the most economical solution based upon a Settlement Agreement with SPP, Western, Basin Electric, Heartland Consumers and MISO that was approved by the FERC in Docket Nos. ER14-2850-006 and ER14-2851-006 (Settlement Agreement). Under the Settlement Agreement, Montana-Dakota agreed to take NITS service from SPP for loads which rely upon transmission facilities owned by either Western or Basin Electric for power deliveries on a first contingency basis. In return for taking NITS service from SPP, the Settlement Agreement creates a mechanism where Montana-Dakota is able to receive transmission bill credits for those transmission facilities owned by Montana-Dakota which are needed by other SPP customers, including Western and Basin Electric, in areas where Montana-Dakota is taking SPP NITS Service. These are transmission facilities owned by Montana-Dakota that were under the Western TSA and the Basin Electric ICCUA.

TCRR Rate Update

Montana-Dakota is now requesting to update its TCRR rate to reflect actual costs incurred through December 31, 2016 and the projected costs through December 31, 2017. The projected 2017 transmission costs, as allocated to South Dakota, are \$686,150 which includes an under recovery of \$108,082 for 2016 costs as shown in Attachment A.

These MISO and SPP costs are offset through the inclusion of two credits: (1) Other O&M Revenue Credit in the amount of \$574 to reflect the credit due South Dakota customers for the recovery of other O&M costs associated with MISO Schedule 26A costs also included in South Dakota electric rates today and (2) Schedule 26A Return Credit in the amount of \$4,006 to reflect the application of the Company's actual 2016 capital structure and authorized return on equity, established in Docket No. EL15-024, in the FERC rate templates used in the determination of the MISO Schedule 26A charges for 2017. The net amount proposed to be recovered is \$681,570. The actual 2016 amounts were also adjusted to reflect the Other O&M Revenue Credit and the Schedule 26A Return Credit described above.

The following attachments are provided in support of the rate update:

Attachment A - Summary of the Transmission Costs and proposed TCRR rate.

Attachment B - Projected 2017 costs and revenues by MISO and SPP schedules and as allocated to South Dakota are provided on pages 1 and 2. The calculation of the MISO Schedule 26A Other O&M and Return credits are shown on page 3.

Attachment C – Actual 2016 costs and revenues by MISO and SPP schedules and as allocated to South Dakota are provided on pages 1 and 2. The calculation of the MISO Schedule 26A Other O&M and Return credits are shown on page 3.

Attachment D – Calculation of the under-recovered balance from 2016 based on the actual net expenses and the revenues collected through interim rates plus the TCRR charge implemented on July 1, 2016.

The above noted costs are to be recovered through the TCRR rate effective May 2, 2017 through April 30, 2018. The increase to a typical residential customer using 853 Kwh would see an increase of \$0.72 per month, or \$8.64 annually.

Montana-Dakota is not proposing to include new or modified transmission facilities constructed to improve the power deliver capability or reliability of the transmission facility at this time. However, the Company expects to do so in the next TCRR filing.

Included herein is a second set of the affected tariff on which Montana-Dakota has indicated the revision requested by lining through the existing language which the Company proposes to delete and clearly highlighting the new language proposed.

Included as Attachment E is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26.

The Company will comply with ARSD 20:10:13:18 by posting the Notice shown in Attachment F 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 §49-1A-8 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,

A handwritten signature in dark ink, appearing to read "Tamie A. Aberle". The signature is written in a cursive style with a large initial "T".

Tamie A. Aberle
Director of Regulatory Affairs

Attachments

cc: B. Koenecke