## STAFF MEMORANDUM

**TO:** COMMISSIONERS AND ADVISORS

**FROM:** KRISTEN EDWARDS AND PATRICK STEFFENSEN

**RE:** DOCKET EL17-011 – IN THE MATTER OF THE FILING BY MONTANA-DAKOTA UTILITIES CO. FOR APPROVAL OF THE ANNUAL UPDATE TO ITS TRANSMISSION COST RECOVERY RIDER RATE

**DATE:** 4/21/17

## BACKGROUND

On March 2, 2017, Montana-Dakota Utilities Co. (MDU or Company) filed an application for South Dakota Public Utilities Commission (Commission) approval of the annual update to its Transmission Cost Recovery Rider (TCRR) rate. The Company proposes their annual true-up of the actual revenue collected from customers through the TCRR and actual costs incurred and revenues credited from the Midcontinent Independent System Operator, Inc. (MISO) and Southwest Power Pool (SPP) through December 31, 2016, and the projected transmission costs and revenues through December 31, 2017. MDU proposes TCRR rates effective May 2, 2017.

SDCL § § 49-34A-25.1 through 25.4 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of new or modified transmission facilities with a design capacity of 34.5 kV or more and which are more than five miles in length.

In Docket EL15-024, the Commission approved the establishment of the TCRR, and the revenue requirement and rates associated with the first ten months (July 1, 2016 through May 1, 2017) of the TCRR. MDU's TCRR includes revenues credited and costs assessed to MDU by MISO, including a portion of the costs associated with its regionally-allocated electric transmission facilities as reflected in MDU's transmission rates approved by the Federal Energy Regulatory Commission (FERC). The costs assessed by MISO include MISO administrative costs (MISO FERC Transmission Rate Schedule 10) as well as MISO regional transmission costs (MISO FERC Transmission Rate Schedules 26 and 26A).

MDU's TCRR utilizes the MDU rate templates filed with the FERC. Regarding MDU's Schedule 26A costs, the TCRR replaces the overall rate of return reflected in the FERC rate template with the overall rate of return based on the Company's actual capital structure, including short-term debt, actual long-term debt costs as of the prior year, 12-month average short-term debt costs for the prior year, and the ROE approved in the last rate case, EL15-024. This information is used to compute an adjustment applicable to that portion of the MDU regionally allocated transmission costs to be recovered via the TCRR. Staff and MDU developed this methodology in EL15-024 in order to accomplish the intent of the "refined split method" used for Otter Tail and Xcel in a manner that is more administratively efficient.

Since MDU only owns one Schedule 26 cost-shared project and this project is included in base rates, the South Dakota share of the revenue MDU receives for this project is credited 100 percent to customers.

Prior to the Western Area Power Authority (WAPA) and Basin Electric Power Cooperative (Basin) joining SPP, they had long-standing reciprocal transmission sharing agreements with MDU. Thus, these sharing agreements between MDU and WAPA and between MDU and Basin expired on December 31, 2015 and were replaced with network integrated transmission service, or NITS service, from SPP. These NITS services are reflected in SPP Schedule 9 and provide MDU's customers with the highest level of curtailment priority on WAPA's and Basin's facilities.

Similar to MDU paying for use of WAPA's and Basin's systems in SPP, WAPA and Basin pay for their use of MDU's facilities in MISO. WAPA and Basin have also chosen to take NITS service from MISO for the portion of its members' load subject to MDU's transmission facilities. These revenues to MDU are similarly reflected in MISO Schedule 9.

MDU has explored many options to lessen the burden on their ratepayers, including withdrawing from MISO and joining SPP and splitting its transmission system into a MISO and SPP system. However, analysis showed taking NITS service from SPP, where needed, was the most economical solution available.

In this docket, MDU proposed to recover a revenue requirement of $681,570, consisting of the forecasted 2017 revenue requirements of $573,488, plus the $108,082 true-up of actual amounts under-collected in 2016. MDU used the methodology as approved by the commission in Docket EL15-024 including the use of the ROE as approved in that rate case proceeding where applicable in this filing. MDU proposed to implement a rate of $0.00450 per kWh, or an increase of $0.00084 per kWh, effective May 2, 2017.

## STAFF'S ANALYSIS

Staff conducted a comprehensive review of MDU's filing, assessed the filing's compliance with the statutes authorizing the transmission facilities tariff mechanism, obtained additional information through discovery, and ultimately came to a determination based on this analysis.

Staff and MDU (jointly the Parties) had numerous discussions regarding MDU's filing. As a result, MDU agreed to provide an updated filing to reflect several identified revisions. Ultimately, the Parties agreed on a comprehensive resolution of all issues.

The Parties agree the updated under-collection for 2016 is $109,163, and the updated forecast for the 2017 revenue requirement is $552,882, for a total revenue requirement recovery of $662,045. This revised revenue requirement, as shown in MDU's updated filing, represents a reduction of approximately $20,000 from MDU's initial filing. The individual revisions are outlined below.

### 2017 SPP Revenue Credits

During discovery, MDU noticed it inadvertently included an old estimate of the 2017 SPP Schedule 9 Facility Credits in the initial filing. The revision updates these facility credits to the current projection. This update is reflected on page 2 of Attachment B and decreases the revenue requirement by approximately $39,000.

**2017 MISO Revenue Credits**

The initial filing used an incorrect 2017 estimate of MISO Schedules 1, 2, 7, 8, and 24 revenue credits. The updated filing corrects these amounts, as shown on page 1 of revised Attachment B, causing an increase in the revenue requirement of approximately $22,000.

**2017 MISO Schedule 10 Expense**

During discovery, it was determined an error was made in the projected 2017 MISO Schedule 10 expenses. The updated filing corrects this amount, as shown on page 1 of revised Attachment B, causing a decrease in the revenue requirement of approximately $8,000.

**2016 and 2017 MISO Schedule 26A Return Credits**

The Parties agreed corrections needed to be made in the calculation of the 2016 and 2017 MISO Schedule 26A Return Credits. The corrections change the MDU revenue requirement ratio used in the 2016 credit calculation and the Schedule 26A return ratio used in the 2016 and 2017 credit calculations. These revisions are reflected on page 3 of revised Attachments B and C and increase the revenue requirement by approximately $5,000.

**Effective Date**

The initial filing by MDU proposes an effective date for the new TCRR rate of May 2, 2017; however, the Settlement Stipulation in Docket EL15-024 requires an effective date of May 1st each year. Thus, the Parties have agreed to a May 1, 2017 effective date for the new TCRR rate. This rate with the revisions noted above is $0.00438 per kWh, or an increase of $0.00072 per kWh from the rate currently in effect.

## RECOMMENDATION

Staff believes the Company's revised filing is consistent with the Settlement Stipulation approved in Docket EL15-024 and adequately addresses all of Staff's concerns. The Company has responded to all data requests asked by Staff. Staff recommends the Commission approve the 2017 TCRR revenue requirement and the revised TCRR rate of $0.00438 with an effective date of May 1, 2017.