STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: LORENA REICHERT & AMANDA REISS

RE: EL19-009 - In the Matter of the Filing by Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group Inc., for Approval of the Annual Update to Its Transmission Cost Recovery Rider Rate

DATE: May 10, 2019

BACKGROUND

On March 1, 2019, the South Dakota Public Utilities Commission (Commission) received a filing by Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group Inc., (MDU) for 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, 2018, and the projected transmission costs and revenues through December 31, 2019. MDU proposes TCRR rates effective May 1, 2019. In addition, MDU is including the projected 2019 revenue requirements for two transmission projects in its projected 2019 TCR update.

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 Schedule 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 actual long-term debt costs as of the prior year, 12-month average short-term debt costs for the prior year, and the PROE 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 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 firm transmission service rights on WAPA's and Basin's facilities.

Like 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 areas of MISO where MDU does not receive Section 30.9 Facility Credits from SPP. 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 EL17-011, the Commission approved cost recovery of $662,045. 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. MDU implemented a rate of $0.00438 per kWh, for an increase of $0.00072 per kWh, effective May 2, 2017.

In EL18-011, the Commission approved cost recovery of $814,186. MDU implemented a rate of $0.00545 per kWh, or an increase of $0.00107 per kWh, effective May 1, 2018. 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 docket, MDU proposed to recover a revenue requirement of $801,901, consisting of the forecasted 2019 revenue requirements of $853,936, minus the $52,035 true-up of actual amounts over-collected in 2018. MDU used the methodology as approved by the commission in Docket EL15-024, including the use of the ROE as approved in the rate case proceeding where applicable in this filing. MDU proposed to implement a rate of $0.00530 per kWh, or a decrease of $0.00015 per kWh, effective May 1, 2019.

After correcting the jurisdictional allocation for the Bowdle East Transmission Substation Project, explained below, MDU filed Revised Attachment A and Revised Attachment C. MDU proposes to recover a revenue requirement of $984,666. MDU proposes to implement a rate of $0.00651 per kWh, or an increase of $0.00106 per kWh.

NEW TRANSMISSION PROJECTS

MDU seeks eligibility determination for the Ellendale to Leola Transmission Project and the Bowdle East Transmission Substation Project. Staff reviewed the eligibility of these projects given the constraints provided through statute and past Commission orders and verified whether proper efforts were made to ensure the lowest cost to ratepayers.

Ellendale to Leola Transmission Project

MDU is proposing to include a new transmission line of 45 miles and a 115/41.6 kilovolt substation. The company performed transmission planning studies and identified this project as the least cost option for a needed additional source into the 41.6 kilovolt transmission system near Leola.

As explained by MDU in Response to Data Request 2-4, the alternative to this project was rebuilding existing 41.5 kV lines to a higher voltage and converting all distribution substation taps to a higher voltage, which would have been 5 to 10 times as much as the Leola Transmission Project.

Additionally, as explained in Response to Data Request 2-3, MDU competitively bids engineering and construction contracts, and equipment purchases. Equipment is also consistent across facilities, reducing construction time and reducing ongoing O&M expense. Finally, standard designs are used for substations, reducing the costs of designs and unknowns in construction.

Bowdle East Transmission Substation Project

The purpose of this project is to rebuild an existing substation to a new location. The previous location was inundated with ground water causing concrete foundations to heave and move. The rebuilt substation also includes a larger substation power transformer with a load tap changer, as was supported by transmission studies. The alternative options were rebuilding existing lines to a higher operative voltage or rebuilding with a larger conductor, which were both more expensive options.

Of the five existing transmission lines that currently connect to the existing Bowdle East Transmission Substation, all are over 34.5 kV and are over 5 miles in length. In order to connect to the new Bowdle East Transmission Substation, the existing lines will be extended and/or rerouted for a distance of 2877 feet, or approximately 0.55 miles.

In previous Commission dockets EL12-035, EL13-006, EL16-031, and EL17-036, projects with less than 5 miles of new or modified transmission lines were removed from TCRR rates. In EL14-090 and EL15-030, projects were removed by staff from TCRRs because they did not meet staff's definition of a "modified transmission facility." Most recently, in EL15-030, staff explained in its memo that "for a project to be determined modified it must be functionally different after the modification…and is used to serve increased current or future load."

MDU asserts that new, larger power transformer with a load tap changer of 75 MVA increases the substation's ability to carry all customer load from other substations, as the existing power transformer and voltage regulator was 20 MVA. Therefore, this changes how the Company operates the five transmission lines in their entirety, and therefore, according to the Company, should qualify for the TCRR. Staff, on the other hand, believes that any physical modifications to the existing lines account for less than 5 miles, and therefore the project does not qualify for inclusion in the TCRR.

In conclusion, MDU and staff do not agree whether the project meets the definition of "modified transmission facilities" and other requirements in SDCL § 49-34A-25.1. Staff and MDU are seeking a commission decision on whether this substation project meets the requirements of the statute for inclusion.

OTHER ISSUES

Jurisdictional Allocation of the Bowdle East Transmission Substation Project

In MDU's original filing, the allocation to South Dakota of the Bowdle East Transmission Substation Project was 5.292291%, or a plant in service total allocated to South Dakota of $326,489. In Response to Data Request 1-1, MDU corrected the jurisdictional allocation to South Dakota with the entire 41.6 kV portion of the substation directly servicing South Dakota. That changed the allocation to 45% of the Total Plant in Service and 5.292291% of the remaining 55% of the Total Plant in Service, or a plant in service total allocated to South Dakota of $2,955,680.

Tax Cuts and Jobs Act

The 2018 true-up include the change in MISO charges due to the TCJA and reflect the effects of the TCJA tax rate change. In a data response to staff, MDU also showed that that the reduced MISO charges were offset in a small way by a lower Transmission Facility Credit from SPP.

TCRR REVENUE REQUIREMENT

The revenue requirement with this TCRR filing is $984,666, subject to later true-up to actual costs and recoveries, based on the forecasted revenue requirements of $1,036,701, minus the $52,035 true-up of actual amounts over-collected in 2018. This forecasted amount for 2019 and true-up of actual amounts over-collected in 2018 both include the SD PUC filing fee in the revenue requirement.

Capital Structure, Cost of Debt, ROR, and ROE

The filing used a capital structure and cost of debt forecast for 2019, to calculate the January 1, 2019 through December 31, 2019 revenue requirements. MDU used the ROR approved in its last general rate case, Docket EL15-024, to calculate the carrying charge. MDU also used the ROE approved in its last general rate case, Docket EL15-024, and the actual 2017 capital structure to calculate the MISO Schedule 26A Return Credit.

MAY 2019-APRIL 2020 TCRR RATE

The Settlement Stipulation in Docket EL15-024 requires an effective date of May 1st each year. Therefore, MDU has requested a May 1, 2019 effective date for the new TCRR rate. This rate is based on forecasted sales for calendar year 2019. The rates include the carrying charge, costs assessed 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 FERC, MISO administrative costs (MISO FERC Transmission Rate Schedule 10), and MISO regional transmission costs (MISO FERC Transmission Rates Schedules 26 and 26A), and costs assessed by SPP. The net MISO and SPP costs used to determine the revenue requirement are allocated to customer classes based on the 12 Month Peak Demand allocation factors noted on page 2 of Attachment B. The rate as proposed by MDU in its revised filing is $0.00651 per kWh, or an increase of $0.00106 kWh from the rate currently in effect.

RECOMMENDATION

The Company has responded to all data requests asked by Staff. Staff recommends the Commission approve the 2019 TCRR revenue requirement excluding the Bowdle East Transmission Substation Project and a revised TCRR rate of $0.00515 per kWh, effective May 1, 2019.