STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: BRITTANY MEHLHAFF, PATRICK STEFFENSEN, AND KRISTEN EDWARDS

RE: EL21-009 - 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: April 22, 2021

BACKGROUND

On March 1, 2021, the South Dakota Public Utilities Commission (Commission) received a filing from Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group Inc. (MDU), for approval of its annual update to its Transmission Cost Recovery Rider (TCRR) rate. In this update, MDU provides the true-up of 2020 actual costs and recoveries and projected 2021 revenue requirement, including one new transmission project.

South Dakota Codified Laws §§ 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 thirty-four and one-half kilovolts or more and which are more than five miles in length.

In MDU's most recent rate case, 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 has since filed annual updates to the TCRR. Most recently, in Docket EL20-010, the Commission approved recovery of the Dickinson Loop Line Project in addition to the continued recovery of the Ellendale to Leola Project, the MISO and SPP expenses net of revenues, and net of the Basin Facility Agreement revenue.

In this docket, MDU proposes to include one new project for 2021. The proposed revenue requirement results in a rate of $0.00694 per kWh, an increase of $0.00181 per kWh, to be effective May 1, 2021.

STAFF ANALYSIS

Staff's recommendation is based on its analysis of MDU's filing, discovery information, relevant statutes, and previous Commission orders. Staff's review consisted of, but was not limited to, the project eligibility of the new transmission project, the 2020 actual revenue requirement and true-up, the forecasted 2021 revenue requirement, and rate calculation.

Actual 2020 Revenue Requirement and Over/Under Recovery

The rate approved in Docket EL20-010 was based on the true-up of prior period costs and revenues and the projected 2020 revenue requirement. Staff continues to review the actual capital costs to determine if the costs were prudent and at the lowest reasonable cost to ratepayers. Staff also reviewed the Company's calculation of the under/over collection of costs incorporated in the new TCRR rates, comparing actual recoveries to actual costs.

The Company's Attachment D provides the actual 2020 revenue requirements, including Basin Facility Agreement revenue, MISO and SPP revenues and expenses, and the revenue requirements associated with the Ellendale to Leola Transmission Project and the Dickinson Loop Line Project. The actual 2020 revenue requirement, as allocated to South Dakota, is $932,404. This compares to the estimated 2020 revenue requirement in Docket EL20-010 of $934,355.

In Docket EL20-010, MDU indicated that the Ellendale to Leola project was partially in-service in October 2019 and the remainder of the project was planned to be in-service in June 2020. However, MDU now states the planned completion of Phase II of the project has been delayed until 2022. Therefore, the actual 2020 revenue requirement only includes those costs associated with Phase I of the Ellendale to Leola Transmission Project. In response to Staff's data request, MDU indicated that multiple items lead to the delay in the completion date for Phase II, including soil conditions that required a redesign of a portion of the transmission line, right of way negotiations which have now been resolved, and abnormal weather that reduced the construction season. The Company also stated that these issues will impact the total construction costs. Staff will review the final construction costs when the project is included in the 2022 revenue requirement.

Staff also reviewed the costs associated with the Dickinson Loop Line project, which went into service in two phases, with a Phase I in-service date of March 2020 and a Phase II in-service date of December 2020. Staff noted the final costs were slightly higher than originally forecasted in Docket EL20-010. MDU responded to Staff's data request indicating that the increased cost was due to right of way costs being higher than expected in order to create a common corridor with the local electric cooperative, the required use of self-supporting structures in areas where guys and anchors could not be used, and schedule deadlines.

The actual 2020 revenue requirement associated with these two transmission projects was $44,584 compared to the projected 2020 revenue requirement in Docket EL20-010 of $87,261.

The remaining and majority of the costs included in the actual 2020 revenue requirement are the MISO and SPP costs net of revenues, totaling $887,820 compared to the estimated 2020 net costs of $847,094.

Attachment F to MDU's filing details the calculation of the net under-recovered balance from 2020, including carrying charges calculated at the Company's last approved overall rate of return. The resulting 2020 cumulative under-recovered balance is $16,039.

The Company also includes a true-up of the 2019 Schedule 26A Return Credit and Other O&M Credit as actual 2019 amounts were not known at the time of filing EL20-010. The details regarding this true-up are found in MDU's Attachment E. This $72 true-up is combined with the under-recovered balance from 2020 and results in the total under-recovered balance of $16,111, as shown on Attachment A.

2021 Revenue Requirement

MDU proposes to recover total projected 2021 costs of $1,023,389. The bulk of these costs are the MISO and SPP costs net of revenues detailed in MDU's Attachment B. The remainder of the 2021 costs are associated with three transmission projects. The Ellendale to Leola Transmission Project and Dickinson Loop Line Project were approved for recovery in dockets EL19-009 and EL20-010, respectively. The current docket continues recovery of these projects and proposes to include one new transmission project for 2021 – the Greenway Substation and Line Project.

Greenway Substation and Line Project

The Greenway Substation and Line Project is the replacement of an existing 30-mile, 41.6 kV line with a new 69 kV line from Greenway, South Dakota to Bowdle, South Dakota and the construction of a new 69 kV switching station. MDU states this project is due to the age and condition of the existing line, as the existing line was built in 1955 and there has been an increasing amount of outages and repairs needed between the annual patrols of the line. Continuing to operate the existing line would reduce reliability for South Dakota customers. MDU stated that replacing conductor requires a complete rebuild of those section lines and is the only alternative to the current patrol and repair process. MDU indicates that new construction standards will be used to improve the reliability of the line, including the existing 69 kV standard for the transmission line. The line will be built using 69 kV rated equipment but operated at 41.6 kV. This allows MDU an opportunity to increase the capacity of the system if future load growth requires. MDU indicates the cost difference between 41.6 kV rated equipment and 69 kV rated equipment is minimal, and the construction methods and costs are the same for either voltage class.

The costs associated with the Greenway Substation and Line Project is estimated at $9.8 million. MDU claims this line is designed and operated as local transmission and not part of the integrated system, so it does not provide any system-wide benefits and only regional benefits to South Dakota ratepayers. Thus, this project will be direct-assigned to South Dakota, as was the line that is being replaced. MDU also verified that each of its jurisdictions have local transmission lines that are direct-assigned, and that South Dakota's percentage of such lines is roughly equivalent to its allocation factor.

It should be noted that since the Greenway Substation and Line Project isn't scheduled to be in-service until December 2021, the projected 2021 revenue requirement is only partially impacted by this new project. The full annual impact of this project will not be realized until the 2022 revenue requirement, when it is estimated that the increase in this project alone will result in an approximate $925,000 increase to the revenue requirement. This equates to an approximate $5.25 per month increase for the typical customer using 853 kwh per month.

The 2021 revenue requirements associated with the three transmission projects are found on Attachment C. The projected 2021 South Dakota share is $140,382.

In addition to the projected 2021 costs, the Company also includes the calculation of the projected 2021 Schedule 26A and Other O&M Return Credits, totaling $1,239, as detailed on Attachment E. These credits reflect the intent of the “refined split method” used for Xcel and Otter Tail in a manner that is more administratively efficient. This credit method utilizes the MDU rate templates filed with the FERC. MDU replaces the overall rate of return reflected in the FERC 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 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. This method is similar to the method MidAmerican uses in calculation of its TCRR.

2021 TCRR Rate

When the projected 2021 costs of $1,023,389 and projected 2021 return credits of $1,239 are combined with the total 2020 net under-recovery of $16,111, the total revenue requirement to be recovered from customers is $1,038,261. When divided by the projected kWh of 149,660,000, this results in a rate of $0.00694/kWh. MDU proposes this rate be effective May 1, 2021. The calculations supporting this rate are found on the Company’s Attachment A.

Compared to the rate currently in effect, the proposed rate results in an increase of $0.00181/kWh. A typical residential customer using 853 kWh per month will see an increase of $1.54 per month, or $18.48 per year. When combined with the Infrastructure Rider rate, also effective May 1, 2021, this results in a net increase of $0.23 per month, or $2.76 annually, for the typical residential customer using 853 kWh per month.

RECOMMENDATION

Staff believes the Company’s filing is consistent with the settlement approved in Docket EL15-024 and consistent with prior TCRR filings. Staff recommends the Commission approve the revised TCRR rate of $0.00694 per kWh, with an effective date of May 1, 2021.