
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: JOSEPH REZAC & KRISTEN EDWARDS
RE: EL17-010 - In the Matter of the Filing by Montana-Dakota Utilities for Approval of the Annual Update to Its Infrastructure Rider Rate
DATE: April 25, 2017

BACKGROUND

On March 1, 2017, the South Dakota Public Utilities Commission (Commission) received a filing by Montana-Dakota Utilities Co. (MDU) for approval of the annual update to its Infrastructure Rider Rate.

Previously, on June 15, 2016, the Commission issued an Order Granting Joint Motion for Approval of Settlement Stipulation in Docket EL15-024. This settlement established an Infrastructure Rider. This initial Infrastructure Rider allowed for the recovery of Thunder Spirit Wind (TSW), a 107.5 MW wind farm located in Hettinger, North Dakota. TSW was selected as a part of MDU's 2013 Integrated Resource Plan. After reviewing the options of entering into a PPA arrangement or owning TSW, MDU went forward with owning TSW.

Refer to the Confidential Staff Memorandum in Docket EL15-024 for further discussion of Staff's analysis regarding TSW. MDU and Staff agreed to cost recovery for TSW through the infrastructure rider as a part of the Settlement Stipulation in Docket EL15-024 with the explicit provision that Staff reserves the right to propose alternative treatment or adjustments to the revenue requirement, including true-up of prior years' revenue requirements, in each annual rider filing and future rate cases.

Pursuant to the terms of the Company's Infrastructure Rider Rate 56 tariff, MDU filed in this current docket for Commission approval of the annual update to its Infrastructure Rider. Costs to be included as a part of the infrastructure rider are based on the South Dakota share of the monthly plant in service balances, net of accumulated depreciation and associated deferred taxes, and operating expenses related to TSW. Operating expenses such as labor and benefits, easement charges and a maintenance agreement are a part of the rider. TSW depreciation and generation taxes are also included. The production tax credits associated with the generation provided by TSW are included as a credit within the overall revenue requirement. 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.

Staff's recommendation is based on its analysis of MDU's filing, discovery information, previous Commission orders, and Settlement Stipulations.

2016 Revenue Requirement

MDU's original filing reported an actual 2016 South Dakota revenue requirement of \$738,440. Revenue recovered from ratepayers in 2016 was \$557,020 which includes actual recoveries from July-December and \$251,209 in recoveries attributable to when interim rates from EL15-024 were in effect. That resulted in an under recovery \$181,420 and a resulting carrying charge balance of \$3,854 calculated using the rate of return of 7.216% in Docket EL15-024.

Revisions from Initial Filing

In response to Staff's discovery, MDU identified some errors in the originally filed South Dakota Infrastructure Rider. The plant balances for March and December 2016 as filed incorrectly included an adjustment to reflect the transfer of dollars within work orders. The Company corrected the balances to reflect that the accounting software did not include the transfer in Plant in Service until the following month. A transmission line was also inadvertently omitted from the initial filing and is now accounted for in MDU's revised filing they submitted on April 25, 2017. The original filing also had used an estimate for Taxes Other Than Income rather than monthly actuals and it was incorrectly trued up, with the North Dakota Wind Generation Tax being incorrectly allocated to South Dakota. Finally, Production Tax Credits were allocated on an incorrect factor and while the Company's original filing included an adjustment, it did not reflect a true up for the entire year. Correcting these errors reduces the 2016 revenue requirement by \$11,643.

In looking at labor costs included as a part of the rider, Staff seeks to remove one-third of the non-executive incentive compensation awards to eliminate rate recovery for incentives paid for achieving financial goals. This adjustment is consistent with the labor adjustments made in EL15-024. A very small portion of a supervisor position salary was removed well. When accounting for the labor changes and aforementioned adjustments the effect on the rider is relatively small in nature.

All the above mentioned revisions are accounted for in MDU's April 25 revising filing. With the revisions that arose from discovery, the actual 2016 revenue requirement for South Dakota is \$726,797. Revenue recovered from ratepayers in 2016 was \$552,526 which includes actual recoveries from July-December and \$246,715 in recoveries attributable to when interim rates from EL15-024 were in effect. That resulted in an under recovery \$174,271 and a resulting carrying charge balance of \$3,652 calculated using the rate of return of 7.216% in Docket EL15-024.

2017 Projected Revenue Requirement

The projected 2017 Infrastructure Rider revenue requirement and results were generally calculated using the 2016 South Dakota actuals. MDU estimates a projected South Dakota 2017 revenue requirement of \$669,599. If MDU continues charging the existing Infrastructure Rider Rate of \$0.00497 per kWh, that will result in a projected under recovery of \$91,820 and a resulting carrying charge balance of \$5,856 for the year ending 2017.

OTHER ISSUES

First Year Cost Deferral

MDU, as a part of the Settlement Stipulation in EL15-024, agreed to defer a portion of the first year costs of TSW in the amount of \$209,779 to be recovered in subsequent years in order to provide a

smoothing effect. Based on MDU's originally filed revenue requirements, MDU calculated a 2016 under recovery of \$181,420. The revised under recovery resulting from adjustments made to MDU's original filing is \$174,271. Because the amount deferred from the first year was less than initially anticipated, MDU and Staff agree that continuing to charge the existing rate is compliant with the Settlement Stipulation in EL15-024.

Filing Fee

MDU and Staff agree that actual costs incurred in processing this docket and future rider updates will be included as an expense moving forward.

Annual Report on Thunder Spirit Wind Performance

As part of the Stipulation in Docket EL15-024, MDU also agreed to report average capacity factors, transmission curtailments, and economic curtailments on an annual basis. MDU included such a report on page 3 of its letter in this docket. The report outlines a 2016 actual capacity factor of 45.3%, no transmission curtailments, and a brief narrative describing economic curtailments. MDU explains there were 14 hours of potential economic curtailments during 2016 but TSW did not see a reduction in generation. MDU indicates the ability to perform more detailed calculations for its 2017 report due to implementation of further data capturing and reporting capabilities.

RECOMMENDATION

Staff recommends the Commission approve the 2016 Infrastructure Rider Revenue Requirement of \$726,797 and continue charging the existing Infrastructure Rider Rate of \$0.00497 per kWh. Staff believes that this rate allows MDU the ability to comply with the settlement stipulation in docket EL15-024 because 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.