

March 1, 2018

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. EL18-____

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 2nd Revised Sheet No. 28.1 of its electric tariffs to be effective with service rendered on and after May 1, 2018.

The tariff change is necessary to reflect the projected 2018 charges assessed Montana-Dakota for transmission-related services 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 total projected 2018 net transmission-related costs as allocated to South Dakota are \$762,749, along with a net under-recovery of 2017 costs of \$52,589 and projected 2018 credits of \$1,152 results in a transmission revenue requirement of \$814,186. The proposed TCRR rate of \$0.00545 per Kwh is applicable to all electric retail rate schedules and reflects an increase of \$0.00107 per Kwh from that currently authorized. The increase is primarily due to increasing MISO Schedule 26A costs and a reduction in the Transmission Facility Credits from SPP in 2018.

Background

On June 15, 2016, the South Dakota Public Utilities Commission (Commission) approved a Settlement Stipulation in Docket No. EL15-024, the Company's last general electric rate case. As part of the Settlement Agreement approved, a Transmission Cost Recovery Rider Rate 59 tariff was established allowing for the recovery of transmission related revenues and costs eligible for recovery under SDCL 49-34A-25.1 through a

Transmission Cost Rider on customers' bills. 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. The first TCRR rate was implemented with service rendered on and after July 1, 2016. The Company's currently authorized TCRR rate of \$0.00438 per Kwh reflects the projected 2017 net transmission-related expenses as authorized in Docket No. EL17-011.

2018 TCRR Rate Update

Montana-Dakota is now requesting to update its TCRR rate to reflect actual costs incurred through December 31, 2017 and the projected costs through December 31, 2018. The net transmission costs, as allocated to South Dakota, are \$814,186 which includes projected 2018 costs of \$762,749, a net under recovery of 2017 costs of \$52,589 and projected 2018 credits of \$1,152 as shown in Attachment A.

The MISO and SPP costs are offset through the inclusion of two credits: (1) Other O&M Revenue Credit in the amount of \$642 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 \$510 to reflect the application of the Company's actual 2017 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 2018.

Included in the net under recovery of the 2017 costs is a true-up of the projected 2016 Other O&M Revenue Credit and Schedule 26A Return Credit described above. At the time of the Company's 2017 TCRR rate update, the actual 2016 Other O&M Revenue Credit and Schedule 26A Return credit were not available to include in the adjustment. In lieu of the actual credits, the Company included the projected 2016 credits. As 2016 actuals are now available, the Company is providing a true-up of the Schedule 26A Other O&M and Return credits. The 2016 credit true-ups and projected 2018 credits are provided in Attachment D.

Montana-Dakota recognizes updates will be required of the Company's TCRR rates to reflect reductions in the MISO charges due to the passage of the Tax Cuts and Jobs Act of 2017 which will be offset by a lower Transmission Facility Credit from SPP. Montana-Dakota and other MISO Transmission Owners with projected rates submitted a filing to FERC on February 1, 2017 requesting FERC waive certain provisions of the MISO tariff in order for the Transmission Owners with projected rates to revise their rates to reflect the reduction in the corporate income tax rate. Under the MISO tariff, rates are to be changed only on an annual basis with any changes reflected in subsequent true-ups. If the waiver is granted, MISO expects to implement new rates reflecting the reduction in

the tax rate by April 1 for March service. MISO will then rebill January and February service so that any tax benefits will be reflected in rates effective January 1, 2018. If the waiver is granted prior to Commission approval of the TCRR update, Montana-Dakota will submit a revised TCRR update reflecting the change in MISO charges in its 2018 TCRR rates. If granted after Commission approval of the 2018 TCRR update, the reduction in MISO charges will be reflected in the 2018 true-up included in the Company's 2019 TCRR update.

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 2018 costs and revenues by MISO and SPP schedules and as allocated to South Dakota are provided on pages 1 and 2. Pages 3 through 8 provide the support for the projected costs which for the most part are based on actual 2017 amounts.

Attachment C – Actual 2017 costs and revenues by MISO and SPP schedules and as allocated to South Dakota are provided.

Attachment D – The calculation of the MISO Schedule 26A Return Credit and Other O&M Credit for the 2016 True-Up and Projected 2018. Pages 1 and 2 reflect the calculation of the Return Credits. Page 3 reflects the calculation of the Other O&M Return Credits.

Attachment E – Calculation of the under-recovered balance from 2017 based on the actual net expenses and the revenues collected.

Attachment F – Customer Notice of Filing bill insert to be included with customers' bills.

An electronic copy of Attachments A through E and supporting workpapers will be provided to Commission Staff.

The above noted costs are to be recovered through the TCRR rate effective May 1, 2018 through April 30, 2019. A typical residential customer using 853 Kwh would see an increase of \$0.91 per month or \$10.92 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.

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 G 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 H 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,



Tamie A. Aberle
Director of Regulatory Affairs

Attachments

cc: B. Koenecke