



UTILITIES CO.

*A Subsidiary of MDU Resources Group, Inc.*

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400 North Fourth Street

Bismarck, ND 58501

(701) 222-7900

March 1, 2019

Ms. Patricia Van Gerpen  
Executive Director  
South Dakota Public Utilities Commission  
State Capitol Building  
500 East Capitol  
Pierre, SD 57501

Re: Annual Update to Infrastructure Rider  
(IR) Rate 56  
Docket No. EL19-\_\_\_\_

Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group Inc. (Montana-Dakota), herewith electronically submits for Commission approval the annual update to its Infrastructure Rider (IR) rate, pursuant to the terms of the Company's Infrastructure Rider Rate 56 tariff. Montana-Dakota requests approval of 1<sup>st</sup> Revised Sheet No. 25 and 2<sup>nd</sup> Revised Sheet No. 25.1 of its electric tariffs to be effective with service rendered on and after May 1, 2019.

The proposed IR rate of \$0.00583 per Kwh is applicable to all electric retail rate schedules and reflects a increase of \$0.00151 per Kwh from the current authorized rate.

### **Background**

On June 15, 2016, the Commission approved a Settlement Stipulation in Docket No. EL15-024, to establish an Infrastructure Rider Rate 56 tariff, allowing for the recovery of infrastructure related charges eligible for recovery under SDCL 49-34A-73. On July 1, 2016 Montana-Dakota implemented an IR rate of \$0.00497 per Kwh for the recovery of significant infrastructure related costs not otherwise included in the Company's currently authorized rates as set forth in Exhibit C of the Settlement Stipulation approved by the Commission in Docket No. EL15-024. This reflected the annual revenue requirement for the Thunder Spirit Wind Facility (Thunder Spirit), net of the estimated revenue collected through interim rates in effect for the months of January through June 2016, attributable to the costs to be recovered through the IR prior to the implementation of the IR rate. As part of the Settlement Stipulation, Montana-Dakota agreed to defer a portion of costs incurred in the early years of the IR to provide a smoothing effect. Both parties agreed that would result in an under recovered balance which would be offset by

lower per unit charges in the later periods covered by the IR. The Company's currently authorized IR rate of \$0.00432 per Kwh reflects the projected 2018 revenue requirement related to the Thunder Spirit Wind Farm as authorized in Docket No. EL18-010, and incorporating the changes prescribed by the 2017 Tax Cuts and Jobs Act (TCJA).

### **2019 IR Rate Update**

Montana-Dakota has prepared an update its IR rate to reflect actual costs incurred through December 31, 2018 and the projected costs through December 31, 2019. The projected 2019 costs for Thunder Spirit, as allocated to South Dakota, are \$882,207, which includes projected 2019 costs of \$787,715, an under recovery of \$94,492 for 2018 actual costs including carrying charges based on the overall Rate of Return authorized in Docket No. EL15-024 as shown on Attachment A.

The 2018 costs to be recovered through the IR are based on South Dakota's share of the monthly plant in service balances, net of accumulated depreciation and associated deferred taxes, and operating expenses related to Thunder Spirit. The operating expenses include labor and benefits, easement charges and a maintenance agreement. Thunder Spirit depreciation, generation taxes, and 2018 expenses assessed by the South Dakota Public Utilities Commission have also been included. The production tax credits associated with the generation provided by Thunder Spirit have been 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. For the Projected 2019 costs, each of the items described above has been included based on the Company's most recent estimates as well as taxes and affected items prescribed by the TCJA.

The revenue requirement includes the addition of the Thunder Spirit Expansion. As presented in the October 26, 2018 Informational meeting, the expansion was placed into service in October of 2018 with approximately \$4.1 million of plant investment allocated to South Dakota. The expansion provides an additional 48 MW of renewable generation to the Company's portfolio. The Thunder Spirit Expansion consists of 16 Nordex N117/3000 (3.0 MW) wind turbines totaling 48 MW with a hub height of 91 meters and an estimated capacity factor of 44.5 percent. The Thunder Spirit Wind Project interconnects at the adjacent Hettinger 230 kilovolt (kV) Junction Substation owned by Montana-Dakota and utilized by both phases.

Montana-Dakota issued a Request for Proposals of Capacity and Energy Resources (2016 RFP) on August 1, 2016 as part of the development of its 2017 Integrated Resource Plan (2017 IRP) submitted to the Commission on September 15, 2017. A copy of the RFP and summary of analysis of bids received were included in the 2017 IRP report.

ACE Wind LLC provided a proposal to Montana-Dakota through the 2016 RFP whereby they would develop the Thunder Spirit Expansion Project and sell the output of the Project to Montana-Dakota under a 25-year power purchase agreement which included an option for the Company to purchase the Project at its commercial operation date. The ownership of the Thunder Spirit Expansion Project was selected as a least cost resource for the Company as part of the 2017 IRP planning process to meet customers current and growing energy requirements. The 2017 IRP analysis selected the Thunder Spirit Expansion Project as a least cost resource in the base case and all sensitivity model runs.

South Dakota's share of the fuel savings, estimated at \$.0011 per Kwh, has been flowing to customers through the Fuel Cost Adjustment since the addition was placed into service.

The 2018 true up continues the use of the proration method when calculating accumulated deferred income taxes. Pursuant to discussions with the Company's external auditor, the determination of any projected period rate must follow the IRS proration method in compliance with the normalization rules. It was also determined that the proration method must be used in the same manner for the true up.

An electronic file supporting the attached schedules will be provided to Commission Staff.

The following attachments are provided in support of the rate update:

Attachment A - Summary of the Infrastructure Costs and proposed IR rate.

Attachment B - Projected 2019 revenue requirement calculation.

Attachment C - Actual 2018 revenue requirement calculation.

Attachment D - Calculation of the under-recovered balance from 2018 based on the actual revenue requirement calculation and 2018 revenue collected under the tariff.

The above noted costs are to be recovered through the IR rate effective May 1, 2019 through April 30, 2020. A typical residential customer using 853 Kwh would see an increase of \$1.29 per month, or \$15.48 annually. The main driver of the increase is the addition of the Thunder Spirit Expansion project. As noted earlier, customers will also continue to see a fuel savings due to the Thunder Spirit Expansion project.

Pursuant to the Settlement Stipulation in Docket No. EL15-024, Montana-Dakota agreed to report annual performance of the Thunder Spirit facility. The 2018 average annual capacity factor, transmission curtailments and economic curtailments are as follows:

- A. The actual Thunder Spirit capacity factor for calendar year 2018 was 40.2% representing 404,569 MWh of generation as compared to 425,668 MWh included in Montana-Dakota's initial 2018 estimate. The reduction in production is attributable to lower wind speeds and outages taken to interconnect the 48MW expansion.
- B. Thunder Spirit did not experience transmission curtailments during 2018.
- C. There were economic curtailments of 2,772 MWh for Thunder Spirit in 2018.

It should be noted that the 24 days of outages to the project to support the construction of the Thunder Spirit Expansion resulted in the potential loss of 15,742 MWh of production for the year. The outages supported the relocation of a 230kV line terminal into the adjacent Hettinger 230kV substation which eliminated the potential breaker failure contingency overload of the 230/115kV transformer located within the Hettinger 230kV substation associated with the larger total Wind Project size of 155.5 MW. The breaker failure contingency mitigation is a new requirement after the Thunder Spirit Wind Project was initially built and placed into service.

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. Please note the headers in the attached tariffs have also been updated to reflect that effective January 1, 2019 Montana-Dakota became a wholly-owned subsidiary of MDU Resources Group, Inc. pursuant to a corporate reorganization approved by the Commission on February 28, 2018 in Docket No. GE18-001.

Included as Attachment E 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 F in a conspicuous place in each business office in its affected electric service territory in South Dakota. In addition, a copy of the customer notice bill insert has been provided in Attachment F.

The Company will pay the deposit amount required pursuant to SDCL §49-34A-75 upon the Commission's Order assessing such fee.

Please refer all inquiries regarding this filing to:

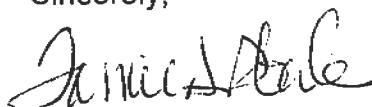
Ms. Tamie A. Aberle  
Director of Regulatory Affairs  
Montana-Dakota Utilities Co.  
400 North Fourth Street  
Bismarck, ND 58501  
Tamie.aberle@mdu.com

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