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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** JOSEPH REZAC & KRISTEN EDWARDS  
**RE:** EL19-010 - 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 Infrastructure Rider Rate  
**DATE:** April 5, 2019

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### BACKGROUND

On March 1, 2019, 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 Adams County near 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 its annual update to the Infrastructure Rider for Commission approval. 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. New to this year's filing is the addition of the Thunder Spirit Wind Expansion.

### Thunder Spirit Wind Expansion

MDU has proposed inclusion of the Thunder Spirit Expansion which was placed into service in October of 2018. As stated by MDU in its transmittal letter, this expansion provides an additional 48 MW of renewable generation and has an estimated capacity factor of 44.5%. According to MDU, in the analysis

of the 2017 Integrated Resource Plan, Thunder Spirit Expansion was selected as a least cost resource in the base case and all sensitivity model runs.

Staff agrees to allow the cost recovery for the Thunder Spirit Expansion through the Infrastructure Rider with the same provisions that were applied to the original Thunder Spirit Wind project when it was placed in the Infrastructure Rider. That is 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.

### **2018 Revenue Requirement**

MDU's filing reports an actual 2018 South Dakota revenue requirement of \$728,187 while the revenue recovered from ratepayers in 2018 was \$699,406. Given the year-beginning under recovery balance of \$65,790, the year-ending under recovery balance equals \$94,492 which includes a small credit resulting from the carrying charge based on prior month ending balances.

### **Corrections from Next Year's Filing**

In last year's filing in EL18-010, Staff identified some minor errors regarding depreciation expense and the gross receipts tax amount. MDU assured Staff that the small errors would be corrected in this year's filing. MDU has properly reflected these corrections in this filing which resulted in a small increase of \$90 to the 2017 revenue requirements which can be found in the year-beginning under recovery balance<sup>1</sup>.

### **2019 Projected Revenue Requirement**

The projected 2019 Infrastructure Rider revenue requirement and results were generally calculated using the 2018 South Dakota actuals with adjustments made where necessary to reflect the Thunder Spirit Expansion. MDU estimates a projected South Dakota 2019 revenue requirement of \$787,715 for a total amount to be recovered in 2019, including the under recovery and carrying charge, of \$882,207.

## **OTHER ISSUES**

### **Annual Report on Thunder Spirit Wind Performance**

As part of the Stipulation in Docket EL15-024, MDU agreed to report average capacity factors, transmission curtailments, and economic curtailments on an annual basis. MDU included such a report on page 4 of its letter in this docket. The report outlines a 2018 actual capacity factor of 40.2%, no transmission curtailments, and economic curtailments of 2,772 MWh in 2018. The lower capacity for 2018 when compared to 2017, can be explained in part to the 24 days of outages to the project to support the construction of the Thunder Spirit Wind Expansion.

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<sup>1</sup> Footnote 4, MDU Attachment D, filed on March 1, 2019 in EL19-010.

## **RECOMMENDATION**

Staff's recommendation is based on its analysis of MDU's filing, discovery information, relevant statutes, previous Commission orders, and previous settlement stipulations. Staff's review consisted of, but not limited to, the 2018 tracker report, the forecasted 2019 revenue requirement, and rate calculation.

Staff believes the Company's filing is consistent with the settlement approved in Docket EL15-024 and prior infrastructure rider filings. Staff recommends the Commission approve the 2019 Infrastructure Rider revenue requirements and Infrastructure Rider rate of \$0.00583 per kWh, effective May 1, 2019.