



UTILITIES CO.

A Subsidiary of MDU Resources Group, Inc.

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Bismarck, ND 58501
(701) 222-7900

February 28, 2020

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. EL20-____

Montana-Dakota Utilities Co. (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 3rd Revised Sheet No. 25 of its electric tariffs to be effective with service rendered on and after May 1, 2020.

The proposed IR rate of \$0.00846 per Kwh is applicable to all electric retail rate schedules and reflects an increase of \$0.00072 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 the IR 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 \$0.00774 per Kwh reflects the projected 2019 revenue requirement related to the Thunder Spirit Wind Farm and Bowdle substation and lines project as authorized in Docket No. EL19-010 with new rates effective July 1, 2019.

2020 IR Rate Update

Montana-Dakota has prepared an update its IR rate to reflect actual costs incurred through December 31, 2019 and the projected costs through December 31, 2020. The projected 2020 costs, as allocated to South Dakota, are \$1,258,774, which includes projected 2020 costs of \$989,641 and an under recovery of \$269,133 for 2019 actual costs, including carrying charges based on the overall Rate of Return authorized in Docket No. EL15-024 as shown on Attachment A. The driving force for the under recovery is due to lower production tax credits and the Thunder Spirit expansion not included in rates until July 2019.

The 2019 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. Depreciation, property taxes, generation taxes, and 2019 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 2019 costs to be recovered through the IR are also based on South Dakota's share of the monthly plant in service balances, net of accumulated depreciation and associated deferred taxes, and depreciation and property taxes related to Bowdle substation and lines.

The 2019 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.

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 2020 costs, each of the items described above has been included based on the Company's most recent estimates, including income taxes.

Montana-Dakota is requesting two additional projects in its 2020 projected costs. Those projects are:

Sidney Transmission Line – Southwest Power Pool (SPP) planning studies determined the need to install larger conductor on Montana-Dakota's own 115 kilovolt integrated system transmission line running from the Lewis and Clark Substation located in Sidney, MT to Western Area Power Administration's Richland Substation near Sidney, MT. Montana-Dakota will receive Facility Credits from SPP for this Network Upgrade which will be passed back to customers in the 2020 true-up. The project is estimated at \$1.5 million with a planned completion date of June 2020. This project supports the integrated electric system and \$69,000 is allocated to South Dakota.

Mandan Substation Project – This project involves adding a 230 kilovolt line terminal for the Wishek 230 kilovolt transmission line and a second 230/115 kilovolt transformer at the Mandan Transmission Substation north of Mandan, ND. The Wishek 230 kilovolt transmission line

currently terminates in the Heskett Transmission Substation. Plans have been made to retire the existing Heskett Transmission Substation and build a new 115/69/41.6 kilovolt substation on the Mandan Substation site located north of Mandan, ND. The existing Heskett Transmission Substation was built in 1966 with a straight bus arrangement that is being eliminated in order to increase reliability, as this arrangement causes all lines on the bus to trip in the event of a fault or circuit breaker failure. The Mandan Transmission Substation was built in 2010 and provides a superior bus arrangement for reliability and control. Terminating all of the 230 kilovolt transmission lines into one substation reduces outage contingencies and improves reliability on the electric integrated system. The project is estimated at \$1.2 million with a planned completion of November 2020. South Dakota's share of this project is \$343,000.

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 2020 revenue requirement calculation.

Attachment C - Actual 2019 revenue requirement calculation.

Attachment D - Calculation of the under-recovered balance from 2019 based on the actual revenue requirement calculation and 2019 revenue collected under the tariff.

The above noted costs are proposed to be recovered through the IR rate effective May 1, 2020 through April 30, 2021. A typical residential customer using 853 Kwh would see an increase of \$0.61 per month, or \$7.32 annually. The main driver of the increase is the Bowdle projects being fully annualized in 2020, along with the addition of the two new transmission projects.

Pursuant to the Settlement Stipulation in Docket No. EL15-024, Montana-Dakota agreed to report annual performance of the Thunder Spirit facility. The 2019 average annual capacity factor, transmission curtailments and economic curtailments are as follows:

- A. The actual Thunder Spirit capacity factor for calendar year 2019 was 41.7% representing 548,180 MWh of generation.
- B. Thunder Spirit did not experience transmission curtailments during 2019.
- C. There were economic curtailments of 9,400 MWh for Thunder Spirit in 2019.

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.

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:

Mr. Travis R. Jacobson
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501
Travis.jacobson@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,



Travis R. Jacobson
Director of Regulatory Affairs

Attachments

cc: B. Koenecke