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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** BRITTANY MEHLHAFF AND AMANDA REISS  
**RE:** EL20-010 - 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 Transmission Cost Recovery Rider Rate  
**DATE:** April 9, 2020

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### BACKGROUND

On February 28, 2020, the South Dakota Public Utilities Commission (Commission) received a filing from Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group Inc. (MDU), for approval of its annual update to its Transmission Cost Recovery Rider (TCRR) rate. In this update, MDU provides the true-up of 2019 actual costs and recoveries and projected 2020 revenue requirement, including one new transmission project.

South Dakota Codified Laws §§ 49-34A-25.1 through 25.4 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of new or modified transmission facilities with a design capacity of thirty-four and one-half kilovolts or more and which are more than five miles in length.

In Docket EL15-024, the Commission approved the establishment of the TCRR, and the revenue requirement and rates associated with the first ten months (July 1, 2016 through May 1, 2017) of the TCRR. MDU has since filed annual updates to the TCRR. Most recently, in Docket EL19-009, the Commission approved recovery of the Ellendale to Leola transmission project in addition to the transmission-related services costs and credits.

In this docket, MDU proposes to include one new project for 2020. The proposed revenue requirement results in a rate of \$0.00513 per kWh, a decrease of \$0.00002 per kWh, to be effective May 1, 2020.

### STAFF ANALYSIS

Staff's recommendation is based on its analysis of MDU's filing, discovery information, relevant statutes, and previous Commission orders. Staff's review consisted of, but was not limited to, the project eligibility of the new transmission project, the 2019 actual revenue requirement and true-up, the forecasted 2020 revenue requirement, and rate calculation.

### Actual 2019 Revenue Requirement and Over/Under Recovery

The rate approved in Docket EL19-009 was based on the true-up of prior period costs and revenues and the projected 2019 revenue requirement. Staff continues to review the actual capital costs to determine if the costs were prudent and at the lowest reasonable cost to ratepayers. Staff also reviewed the Company's calculation of the under/over collection of costs incorporated in the new TCRR rates, comparing actual recoveries to actual costs.

The Company's Attachment D provides the actual 2019 revenue requirements, including Basin Facility Agreement revenue, MISO and SPP revenues and expenses, and the revenue requirements associated with the Ellendale to Leola Transmission Project. The actual 2019 revenue requirement, as allocated to South Dakota, is \$686,487.

As explained in the Company's filing, the Ellendale to Leola project was partially in-service in October 2019 and the remainder is now planned to be in-service in June 2020. The project experienced delays due to issues with easement rights and weather conditions. However, as explained in response to Staff's Data Request 1-3, these delays are expected to be insignificant with respect to total project costs.

Attachment F to MDU's filing details the calculation of the net over recovered balance from 2019, including carrying charges calculated at the Company's last approved overall rate of return. The Company also includes a true-up of the 2018 Schedule 26A Return Credit and Other O&M Credit as actual 2018 amounts were not known at the time of filing EL19-009. The details regarding this true-up is found in MDU's Attachment E.

### **2020 Revenue Requirement**

MDU proposes to recover total projected 2020 costs of \$934,355. The bulk of these costs are the net MISO and SPP costs and revenues detailed in MDU's Attachment B. The remainder of the 2020 costs are associated with two transmission projects. The Ellendale to Leola Transmission Project was approved for recovery in Docket EL19-009. The current docket continues recovery of this project, including the portion planned to be in-service in June 2020. MDU also proposes to include one new transmission project for 2020 – the Dickinson Loop Line Project. This project is a new 17-mile 115 kV line and a rebuild of the 115 kV bus at the Dickinson North Substation. MDU states this project will improve the transmission strength on the integrated electric system for power transfers between the Coyote Power Plant and the Thunder Spirit Wind Farm. The project was partially completed in February 2020, with total completion planned for November 2020. Additional detail regarding the Dickinson Loop Line Project is found in MDU's responses to Staff's Data Requests 1-1 and 1-2.

The revenue requirements associated with both transmission projects are found on Attachment C. The projected 2020 South Dakota Share is \$87,261.

In addition to the projected 2020 costs, the Company also includes the calculation of the projected 2020 Schedule 26A and Other O&M Return Credits, totaling \$1,095. These credits reflect the intent of the "refined split method" used for Xcel and Otter Tail in a manner that is more administratively efficient. This credit method utilizes the MDU rate templates filed with the FERC. MDU replaces the overall rate of

return reflected in the FERC template with the overall rate of return based on the Company's actual capital structure, including short-term debt, actual long-term debt costs as of the prior year, 12-month average short-term debt costs for the prior year, and the ROE approved in the last rate case, EL15-024. This information is used to compute an adjustment applicable to that portion of the MDU regionally allocated transmission costs to be recovered via the TCRR. This method is similar to the method MidAmerican uses in calculation of its TCRR.

### **2020 TCRR Rate**

When the projected 2020 costs of \$934,355 and projected 2020 return credits of \$1,095 are combined with the total 2019 net over-recovery of \$169,116, the total revenue requirement to be recovered from customers is \$764,144. When divided by the projected kWh of 148,846,000, this results in a rate of \$0.00513/kWh. MDU proposes this rate be effective May 1, 2020. The calculations supporting this rate are found on the Company's Attachment A.

Compared to the rate currently in effect, the proposed rate results in minimal changes for customers, with a decrease of \$0.00002/kWh. A typical residential customer using 853 kWh per month will see a decrease of \$0.02 per month or \$0.24 annually.

### **RECOMMENDATION**

Staff believes the Company's filing is consistent with the settlement approved in Docket EL15-024 and consistent with prior TCRR filings. Staff recommends the Commission approve the revised TCRR rate of \$0.00513 per kWh, with an effective date of May 1, 2020.