



UTILITIES CO.

A Subsidiary of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
701-222-7900

May 3, 2022

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

Re: Transmission Cost Recovery
Rider Rate 59
Docket No. EL22-006
Supplemental Information

Montana-Dakota Utilities Co. (Montana-Dakota) herewith electronically submits supplemental information requested at the April 28, 2022 Agenda Meeting (April 28 Agenda Meeting).

During the April 28 Agenda Meeting, South Dakota Public Utilities Commission (Commission) Advisory Staff questioned Montana-Dakota as to whether MDU Internal Costs as presented on Attachment C, pages 3 and 4 of the Company's March 1, 2022 filing were a component of Montana-Dakota's "base rates" established in the most recent electric rate case (Docket No. EL15-024). Continuing, Advisory Staff concluded that if the MDU Internal Costs were in fact a component of base rates, the inclusion of those same costs in the Rider Rate 59 would amount to double recovery of those same costs. The total MDU Internal Costs shown on Attachment C, pages 3 and 4 amounts to \$360,000 of the total project costs for Greenway to Hague/Hague to Herreid of nearly \$8.2 million.

At the Agenda Meeting, Montana-Dakota attempted to clarify how base rates were established. While the Commission did find it helpful, further clarity was requested. With that in mind, Montana-Dakota provides the following:

- Additional narrative regarding the establishment of base rates in a general rate case.
- Comparison of straight-time labor costs from 2014, the base period in Docket No. EL15-024, through 2021.
- A description of the Company's riders.
- Comparison of the Transmission Engineering Department's expensed labor (component of Operation & Maintenance Expenses) versus the labor that was charged as a component of a capital project.

- Finally, the treatment of capitalized labor in rates.

Base Rates

Montana-Dakota used a 2014 base period (Docket No. EL15-024) actual expensed labor as a starting point for expensed labor. To determine a pro forma 2015 labor expense, a labor increase was applied to the 2014 actual expensed labor. No other changes were incorporated into labor for the transmission function. The amount of transmission labor recovered in base rates is approximately equivalent to the 2014 actual expensed transmission labor adjusted for known and measurable increases during 2015.

It is important to note that the labor capitalized and included as a component of a capital project and ultimately included in rate base was not considered in the development of the labor expense. Again, as mentioned during the Agenda Meeting, Montana-Dakota used an established practice during the rate case and continues to use that same practice in the Rider Rate 59 today. The consistent application of the above described methodology across the Company does not equate to double recovery of the same costs as the two buckets of costs are treated separate and distinctly from one another.

Mr. Rezac from the Commission Staff did rightly point out that base rates are established at a point in time and, at all points subsequent to the establishment of base rates, it would be unlikely that expenses will perfectly match those used at the time of the case. As such, given that the last rate case was several years ago, the actual transmission labor expense will vary from that used in base rates each year but, as will be demonstrated later, the variances are reasonable.

Riders

For any project that is placed in service after base rates are set, there is no recovery of the return and interest or the depreciation component unless those projects are included in a rider or the Company initiates a rate case. The Company has utilized the riders to delay a rate case thereby minimizing the expenses associated with a rate case which leads to less expense for customers.

Expensed Labor Comparison

The chart below represents total transmission function labor expense from Docket No. EL15-024 (Statement H, Schedule H-1, page 6). Labor is comprised of straight-time and premium time labor, incentives, vacation and other miscellaneous expenses. Premium time and incentives tend to vary based on annual circumstances whereas straight-time labor is normally very consistent. Therefore, the table shows total costs and straight-time labor costs to

demonstrate that the costs included in base rates is consistent over time with the methodology used to establish base rates.

	2014	2015	2016	2017	2018	2019	2020	2021
Straight-Time Labor Expense	\$267,217	\$277,074	\$249,194	\$229,745	\$244,609	\$265,061	\$261,086	\$298,965
Total Labor Expense	304,898	326,345	339,608	277,518	285,389	317,220	303,974	350,501

Capitalized Labor Comparison

As noted previously, Montana-Dakota has consistently applied the methodology of capitalizing time directly associated with capital projects and expensing the remaining time as O&M. The table below shows total labor cost for all employees that report to the Director of Transmission Engineering in total and with a breakdown of the amount capitalized and expensed, shown in both dollars and percent. While the table represents the total Company amount and is just one portion of total costs, it does represent a large amount of the transmission charges.

As demonstrated, the amount of both capitalized and expensed labor has increased consistently from 2014 through 2021 and the portion of capital labor has also remained consistent.

	2014	2015	2016	2017	2018	2019	2020	2021	Avg
Capitalized Labor	\$1,284,116	\$1,681,103	\$1,750,115	\$1,785,200	\$1,846,472	\$1,846,472	\$1,846,472	\$2,079,804	
Expensed Labor	1,088,014	1,188,811	1,392,743	1,399,044	1,487,244	1,444,603	1,651,790	1,683,491	
Total	\$2,372,130	\$2,869,914	\$3,142,858	\$3,184,244	\$3,333,716	\$3,291,075	\$3,498,262	\$3,763,295	
Capital %	54.13%	58.58%	55.69%	56.06%	55.39%	56.11%	52.78%	55.27%	55.47%
Expense %	45.87%	41.42%	44.31%	43.94%	44.61%	43.89%	47.22%	44.73%	44.53%

Capitalized Labor in Rates

As noted above, when employees work directly on a project their labor is included as a component of MDU Internal Costs as depicted in the Company's filing. These costs become a portion of the total costs of the project and are then included in rate base upon being placed in service. At the time of a rate case, the rate base is used to determine the amount of revenue that is required to generate a return to stockholders and the necessary funds to cover interest expense. In addition, depreciation is included in the revenue requirement on a straight-line basis to represent recovery of the capital project over its useful life. Montana-Dakota's transmission assets are typically depreciated over a 45 – 65 year life. Therefore, MDU Internal Costs, which include capitalized payroll, are then recovered over that same life as poles, fixtures and conductors.

For any project that is placed in service after base rates are set, there is no recovery of the return on projects or the depreciation component unless those projects are included in a rider. In this case, Montana-Dakota has included the recovery of the return and depreciation related to the projects in question. The

recovery will be approximately 1/50th of the MDU Internal Costs shown in the filing on an annual basis but that labor was never considered as a component of base rates.

Conclusion

In summary, Montana-Dakota is not double recovering labor via the inclusion of capitalized labor in MDU Internal Costs which were included as a component of capital projects in the Rider Rate 59 filing. Base rates were set in the last general electric rate case and included recovery of expensed labor as a component of Operation and Maintenance Expenses. Capitalized labor was, and continues to be, treated separately in the development of base rates. It is appropriate to recover expensed labor through base rates and it is also appropriate to recover capitalized labor through depreciation over the appropriate life of each project, regardless if a project is included in base rates or a rider.

Please contact me at (701) 222-7855 or travis.jacobson@mdu.com if you have any questions regarding this submittal.

Sincerely,

/s/ Travis R. Jacobson

Travis R. Jacobson
Director of Regulatory Affairs

Attachment