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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** JOSEPH REZAC AND AMANDA REISS  
**RE:** EL22-006 - 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 25, 2022

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### BACKGROUND

On March 1, 2022, 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 2021 actual costs and recoveries and projected 2022 revenue requirement, including two new transmission projects.

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 MDU's most recent rate case, 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 EL21-009, the Commission approved recovery of the Greenway Substation and Line Project in addition to the continued recovery of the Ellendale to Leola Project, the Dickinson Loop Line Project, the MISO and SPP expenses net of revenues, and net of the Basin Facility Agreement revenue.

In this docket, MDU proposes to include two new projects for 2022. The proposed revenue requirement results in a rate of \$0.01734 per kWh, an increase of \$0.01040 per kWh, to be effective May 1, 2022.

### 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 2021 actual revenue requirement and true-up, the forecasted 2022 revenue requirement, and rate calculation.

### **Actual 2021 Revenue Requirement and Over/Under Recovery**

The rate approved in Docket EL21-009 was based on the true-up of prior period costs and revenues and the projected 2021 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 2021 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 Dickinson Loop Line Project, and the Greenway Substation and Line Project. The actual 2021 revenue requirement, as allocated to South Dakota, is \$1,063,245. This compares to the estimated 2021 revenue requirement in Docket EL21-009 of \$1,023,389.

In Docket EL21-009, MDU indicated that Phase 1 of the Ellendale to Leola project was in-service and Phase 2 of the project, originally planned to be in-service in 2020, would be delayed until 2022. However, MDU now indicates Phase 2 was placed into service in July 2021. Therefore, the actual 2021 revenue requirement includes costs associated with Phase 2 of the Ellendale to Leola Transmission Project not originally projected in the 2021 Revenue Requirement. In previous responses to Staff's data request, MDU indicated that multiple items lead to the delay in the completion date for Phase II. However, with the spring construction seasons of 2021 being drier than expected and anticipated permitting and right of way negotiations proceeding faster than expected.

The Greenway Substation and Line Project was placed into service at the end of 2021 and the 2021 Revenue Requirement is only partially impacted by this new project. As discussed in last year's annual TCR filing, the project is the replacement of an existing 30-mile, 41.6 kV line with a new 69 kV line from Greenway, South Dakota to Bowdle, South Dakota and the construction of a new 69 kV switching station. The costs associated with the Greenway Substation and Line Project is approximately \$9.6 million which is just slightly under budget. MDU indicates this line is designed and operated as local transmission and not part of the integrated system, so it does not provide any system-wide benefits and only regional benefits to South Dakota ratepayers

The actual 2021 revenue requirement associated with these three transmission projects was \$323,015 compared to the projected 2021 revenue requirement in Docket EL21-009 of \$140,382.

The remaining costs included in the actual 2021 revenue requirement are the MISO and SPP costs net of revenues, totaling \$740,230 compared to the estimated 2020 net costs of \$883,007.

Attachment F to MDU's filing details the calculation of the net under-recovered balance from 2021, including carrying charges calculated at the Company's last approved overall rate of return. The resulting 2021 cumulative under-recovered balance is \$470,678.

The Company also includes a true-up of the 2020 Schedule 26A Return Credit and Other O&M Credit as actual 2020 amounts were not known at the time of filing EL21-009. The details regarding this true-up are found in MDU's Attachment E. This \$43 true-up is combined with the under-recovered balance from 2021 and results in the total under-recovered balance of \$470,635, as shown on Attachment A.

### **2022 Revenue Requirement**

MDU proposes to recover total projected 2022 costs of \$2,054,739. In previous filings, the bulk of the projected costs were from the MISO and SPP costs net of revenues as detailed in MDU's Attachment B. With this year's filing, the majority of the 2022 costs are associated with five transmission projects. Three projects, the Ellendale to Leola Transmission Project, Dickinson Loop Line Project, and the Greenway Substation and Line Project were approved for recovery in prior TCR dockets. This docket continues recovery of those projects and proposes to include two new transmission projects for 2022 – the Greenway to Hague 60kV Line Project and the Hague to Herreid 60kV Line Project.

### **Greenway to Hague & Hague to Herreid Line Projects**

The Greenway to Hague Line Project is the replacement of an existing 19.2-mile, 41.6 kV line with a new 69 kV line from Greenway, South Dakota to Hague, South Dakota. MDU states this project is due to the age and condition of the existing line, as the existing line was built in 1956. The costs associated with the Greenway to Hague Line Project is estimated at \$6.1 million.

The Hague to Herreid Line Project is the replacement of an existing 5.8-mile, 41.6 kV line with a new 69 kV line from Hague, South Dakota to Herreid, South Dakota. MDU states this project is due to the age and condition of the existing line, as the existing line was built in 1961. The costs associated with the Hague to Herreid Line Project is estimated at \$2.1 million

These lines have seen an increasing number of outages and repairs needed between the annual patrols. Continuing to operate the existing lines would reduce reliability for South Dakota customers. MDU indicates that new construction standards will be used to improve the reliability of the lines, including the existing 69 kV standard for the transmission lines. The lines will be built using 69 kV rated equipment but Greenway to Hague will be operated at 41.6 kV. This allows MDU an opportunity to increase the capacity of the system if future load growth requires. MDU indicates the cost difference between 41.6 kV rated equipment and 69 kV rated equipment is minimal, and the construction methods and costs are the same for either voltage class. The new Hague to Herreid will be operating at 69 kV, increasing from the current 46kV, to accommodate the load need of the service area.

MDU claims these lines are designed and operated as local transmission and not part of the integrated system, so it does not provide any system-wide benefits and only regional benefits to South Dakota ratepayers. Thus, these projects will be direct assigned to South Dakota, as were the lines that are being replaced. MDU also verified that each of its jurisdictions have local transmission lines that are direct assigned, and that South Dakota's percentage of such lines is roughly equivalent to its allocation factor.

This allocation is also consistent with the Greenway Line Project and Substation added to the Rider in Docket EL21-009.

It should be noted that since the Greenway to Hague and Hague to Herreid Line Projects are not scheduled to be in-service until November 2022, the projected 2022 revenue requirement is only partially impacted by these new projects. The full annual impact of this project will not be realized until the 2023 revenue requirement

The 2022 revenue requirements associated with the five transmission projects are found on Attachment C. The projected 2022 South Dakota share is \$1,381,406.

In addition to the projected 2022 costs, the Company also includes the calculation of the projected 2022 Schedule 26A and Other O&M Return Credits, totaling \$1,045, as detailed on Attachment E. 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 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.

### **2022 TCRR Rate**

When the projected 2022 costs of \$2,054,739 and projected 2022 return credits of \$1,045 are combined with the total 2021 net under-recovery of \$470,635, the total revenue requirement to be recovered from customers is \$2,524,329. When divided by the projected kWh of 145,566,000, this results in a rate of \$0.01734/kWh. MDU proposes this rate be effective May 1, 2022. 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 an increase of \$0.01040/kWh. A typical residential customer using 853 kWh per month will see an increase of \$8.87 per month, or \$106.44 per year.

### **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 \$0.01734 per kWh, with an effective date of May 1, 2022.