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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** JOSEPH REZAC AND AMANDA REISS  
**RE:** EL22-007 - 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 26, 2022

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### BACKGROUND

On March 1, 2022, the South Dakota Public Utilities Commission (Commission) received a filing by Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group Inc. (MDU or Company) for approval of the annual update to its Infrastructure Rider Rate. The Infrastructure Rider was established in the Company's last rate case, Docket EL15-024. The Infrastructure Rider initially allowed for the recovery of Thunder Spirit Wind (TSW1).

Subsequently, in Docket EL19-010, the Commission approved recovery of MDU's Bowdle Substation project and the Thunder Spirit Wind Expansion project (TSW2). In Docket EL20-009, MDU began recovering revenue requirements associated with the Sidney Transmission Line Project and phase one of the Mandan Substation and Lines Project. Most recently, in EL21-007 MDU approved recovery of cost associated with the Mandan Substation and Lines Project and the Lewis & Clark Substation Project.

In this docket, MDU proposes to recover additional costs associated with the Thunder Spirit Light Mitigation project. The proposed revenue requirement, including an over-recovery for 2021 costs and carrying charges, is \$940,248 which results in a rate of \$0.00646 per kWh. The proposed rate is a decrease of \$0.00041 per kWh from the current authorized rate. MDU proposes the rate be effective May 1, 2022.

### STAFF ANALYSIS OF NEW PROJECTS

MDU continues to recover costs associated with TSW1 and TSW2, the Bowdle Substation and Lines project, the Sidney Transmission Line project, the Mandan Substation and Lines Project, and the Lewis & Clark Substation Project. The 2022 proposed revenue requirement also includes costs for the Thunder Spirit Light Mitigation.

#### **Thunder Spirit Light Mitigation**

The Thunder Spirit Light Mitigation involves in installation of a sensor-based light-mitigating technology that activates when aircrafts are detected and is designed to mitigate nighttime lighting impact to the

surrounding areas. MDU is required to install the light-mitigating technology pursuant to North Dakota Administrative Rule. This type of technology is not unfamiliar to wind facilities that reside in South Dakota as many of the wind facilities sited by this PUC include conditions to use the same type of technology. With a planned in-service date of October 2022, the project is estimated to cost \$1.8 million with South Dakota's Share of the project being \$86,447.

### **Regulatory Assets Recovery**

In EL21-007 the Commission approved MDU's request to reflect the annual revenue requirement savings due to the Lewis and Clark I retirement to offset the related amortization of the accelerated depreciation, net of excess deferred income taxes, and the decommissioning and employee related costs as projected to be incurred during 2021. MDU is continuing to amortize the regulatory asset related to the deferred accounting treatment of Lewis and Clark I by using \$616,582 of the annual revenue requirement identified in base rates to amortize the costs related to the decommissioning of Lewis and Clark I. This results in no additional cost to be recovered through the infrastructure rider. Similar treatment is being made for Heskett Units 1 and 2 by using \$920,892 of the annual revenue requirement identified in base rates to amortize the costs related to the decommissioning of Heskett Units 1 and 2, with no addition to the overall revenue requirement to the infrastructure rider. MDU provided additional details and projected regulatory balances of the projects in Attachment E.

### **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 for TSW1 and TSW2 on page 4 of its initial filing in this docket. Staff also requested additional information in discovery. The report outlines an actual capacity factor of 40.8%, no transmission curtailments, and economic curtailments of 7,307 MWh for TSW1 and 3,262 MWh for TSW2 in 2021. For comparison, the weighted average capacity factor for 2016-2021 is 42.8%.

## **REVENUE REQUIREMENT AND RATE**

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

The rate approved in Docket EL21-007 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 Infrastructure Rider rates, comparing actual recoveries to actual costs.

Attachment C of MDU's initial filing provides the calculation of the actual 2021 South Dakota revenue requirement, which totals \$987,584. This compares to the projected 2021 revenue requirement from Docket EL21-007 of \$971,427. The Mandan Substation and Lines Project and the Lewis in Clark Substation Project both went into service during 2021. The 2021 revenue requirement continues to

reflect ongoing costs associated with TSW1, TSW2, the Bowdle Substation and Lines Project, and the Sidney Transmission Line as well.

Attachment D of MDU's filing compares the 2021 revenue requirement of \$1,305,233 with the revenue recovered from ratepayers in 2021 of \$1,402,506 to determine the caring charge and over/under balance. Given the year-beginning under-recovered balance of \$80,941, the 2021 cumulative year-ending balance is an over-recovered balance of \$16,332. The 2021 true-up also continues to use the proration method when calculating accumulated deferred income taxes, in compliance with IRS normalization rules. Carrying charges are calculated using the rate of return of 7.216% from Docket EL15-024. The resulting total cumulative over-recovered balance is \$16,742.

### **2022 Revenue Requirement**

The projected 2022 Infrastructure Rider revenue requirement included in MDU's initial filing was \$956,990. This combined with the over-recovered balance of \$16,742, results in a total revenue requirement of \$940,248. The 2022 projected revenue requirement contains the full annual impact of all projects included in the rider except for the Thunder Spirit Light Mitigation which is not anticipated to be in service until October of 2022.

### **2022 Infrastructure Rider Rate**

MDU's filing proposes a rate of \$0.00646 per kWh based on the proposed revenue requirement and projected kWh of 145,566,000. This is a decrease of \$0.00041 compared to the current rate in effect. A typical residential customer using 853 kWh per month will see a decrease of \$0.35 per month, or \$4.40 annually.

## **RECOMMENDATION**

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, new project eligibility, the 2021 tracker report, the forecasted 2022 revenue requirement, and rate calculation.

Staff believes the Company's filing is consistent with the settlement approved in Docket EL15-024 and consistent with prior Infrastructure Rider filings. Staff recommends the Commission approve the revised Infrastructure Rider rate of \$0.00646 per kWh, with an effective date of May 1, 2022.