TO: COMMISSIONERS AND ADVISORS

FROM: ERIC PAULSON AND KRISTEN EDWARDS (STAFF)

SUBJECT: EL22-014 STAFF RECOMMENDATION

DATE: SEPTEMBER 21, 2022

STAFF MEMORANDUM

Background

On June 15, 2022, Montana-Dakota Utilities Co. (MDU or Company) filed an application for approval to Revise Residential Electric Dual Fuel Space Heating Service Rate 53. MDU proposes to revise the provisions under Rate 53 which relate to the interruption of service.

Rate 53 customers operate MDU approved space heating equipment which provides the Company the ability to interrupt the customers space heating equipment during the heating season between the hours of 5:00 pm and 9:00 pm, Monday through Friday, when the temperature drops below 0°F.

Rate 53 customers also have their water heating equipment interrupted between the hours of 5:00 pm and 9:00 pm, Monday through Friday.

MDU proposes to remove both provisions regarding space heating and water heating interruptions as well as the provision stating the Company will not be liable for loss or damage due to the interruptions.

MDU does not propose any changes to any of the rates and does not propose any customer switch rate classes at this time. Any changes to the rates would be considered in MDU's next rate case filing.

MDU provides service to 262 customers under Rate 53. This rate was closed to new customers in MDU's last rate case filed in 2015.

Analysis

As noted in the filing on page 2, MDU states that it costs approximately $10,000 per month to read the meters on the 262 customers of Rate 53. MDU also states on page 2 that the cost for the new meters is $40 whereas the cost for the current Kv2c meters which are used for Rate 53 customers is $227 per meter to install.

In response to staff's DR1-2 Attachment A, MDU provided a breakdown of the increased revenues and the increased percentage if the customers of Rate 53 were converted to be

100% on Rate 10. A small portion of the response detailing the effects of moving usage to Rate 10 is provided in the chart below. Note that the Rate 53 customers are currently paying Rate 10 rates for their electricity usage not including space heating or water heating usage. Also note that MDU is not proposing to move customers away from Rate 53 at this time, this is just an estimate of the increase if Rate 53 were to be ended and these customers move to Rate 10 prior to any rate case. Any changing of rates will be determined in the next rate case filing.

	Total Bill Impact	Percentage		Average Customer Bill Impact
January	$12,342.84	14%		$ 44.24
February	$13,334.36	16%		$ 48.14
March	$14,293.26	16%		$ 51.60
April	$ 7,464.19	13%		$ 27.04
May	$ 5,361.66	11%		$ 19.50
June	$ 4,516.48	11%		$ 16.48
July	$ 1,273.17	3%		$ 4.66
August	$ 1,352.80	3%		$ 5.01
September	$ 1,000.54	2%		$ 3.72
October	$ (113.36)	0%		$ (0.42)
November	$ 3,937.22	9%		$ 14.75
December	$ 8,744.20	13%		$ 33.25
	$73,507.30	11%		$ 267.97

As noted in the chart, the total bill impact for all Rate 53 customers would be approximately $75,507.30 per year or $6,125.61 per month. MDU stated on page 2 of their application that to read the meters of these customers it costs approximately $10,000. Moving the customers off Rate 53 to Rate 10 would provide a cost savings to the company that outweighs the cost increase to the customers. One thing to point out is the approximate $6,125.61 rate increase to the customers is a direct impact to these 262 customers whereas the $10,000 savings would be spread out amongst MDU as a whole and not directly to these 262 customers, therefore these same 262 customers would not feel the full $10,000 in cost savings on their bills, it would be spread out through all rate classes. And likely the man hours driving this savings would be used elsewhere in the business rather than eliminated.

Again, these costs and rate changes would be determined in the next rate case, not this filing. Staff merely wanted to illustrate what type of an increase would be contemplated for the Rate 53 customers if they were moved to current Rate 10 rates with the anticipation that the increase would be higher in a future base rate increase request, which could be as early as 2023.

With this filing, as proposed, customers under Rate 53 would still be paying the lower Rate 53 rates, while being provided the exact same service as Rate 10 customers. Rate 53 customers would no longer be susceptible to interruptions just like MDU's other Rate 10 customers are not.

As noted in the response to Staff DR1-10, the new meters proposed to be installed are not capable of being programmed to provide the same interruption functionality as the current Kv2c meters installed and the new meters would not have any ability to remotely interrupt the Rate 53 customers in any way. In response to DR1-12, MDU stated they did not consider any type of secondary or alternative control box that could be placed behind the meter to control the space heating or water heating load.

Staff's primary concern with allowing MDU to remove the interruptible provisions in Rate 53 is that it essentially becomes an identical service to Rate 10 but with a lower rate, see the chart discussed earlier above for the monthly discount Rate 53 customers would be receiving. The dual fuel space heating requirement would become moot in Rate 53 since the electricity would never be interrupted. Staff is concerned that it would not be fair to all the other Rate 10 customers, who are being provided the exact same service, to pay higher rate than those on Rate 53.

Knowing that MDU has plans to file a rate case in mid to early 2023[1], this topic can be discussed at more length in the rate case docket to determine the true rate impact the Rate 53 customers will have if they are moved to Rate 10 for all their electrical load. Discussing the rate impact of moving customers along with removing the provisions of Rate 53 at the same time will ensure fairness for equal service levels and equal rates for each customer.

Staff is concerned that if the provisions are removed, the Commission may be backed in a corner in the next rate case and could ultimately be required to move the Rate 53 customers to Rate 10 no matter what the increase to their bills would be out of fairness to the rest of the Rate 10 customer class who would be receiving the same service. This increase could ultimately prove to be a very large increase after considering the move from the lower Rate 53 to the higher Rate 10 plus an additional rate increase due to the general base rate increase request that this moving of rate classes would be considered in.

STAFF RECOMMENDATION

Staff recommends the Commission deny MDU's request to remove the provisions in the tariff at this time and consider it in more detail in the next general rate case.

[1] Response to DR1-15 and EL22-021 8/3/22 letter page 2.