STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: JOSEPH REZAC AND KRISTEN EDWARDS

RE: EL23-005 - 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 11, 2023

BACKGROUND

On March 1, 2023, 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 2022 actual costs and recoveries and projected 2023 revenue requirement.

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 EL22-006, the Commission approved recovery of the Greenway to Hague & Hague to Herreid Line Projects in addition to the continued recovery of the Greenway Substation and Line Project, 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 is not proposing to add any new projects for rate recovery. The proposed revenue requirement results in a rate of $0.01632 per kWh, a decrease of $0.00102 per kWh, to be effective May 1, 2023.

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 2022 actual revenue requirement and true-up, the forecasted 2023 revenue requirement, and rate calculation.

Actual 2022 Revenue Requirement and Over/Under Recovery

The rate approved in Docket EL22-006 was based on the true-up of prior period costs and revenues and the projected 2022 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 2022 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 2022 revenue requirement, as allocated to South Dakota, is $1,850,695. This compares to the estimated 2022 revenue requirement in Docket EL22-006 of $2,054,739.

In Docket EL22-006, MDU indicated that the Greenway to Hague & Hague to Herreid Line Projects would be placed into service in November of 2022. However, MDU now indicates these projects were placed into service in January 2023. Therefore, the actual 2022 revenue requirement does not include costs associated with the Greenway to Hague & Hague to Herreid Line Projects that were approved for rider recovery in last year's filing. According to MDU, the delay was due to set delays in material delay as well as contractor availability.

The actual 2022 revenue requirement associated with these three transmission projects in service during 2022 was $1,235,732 compared to the projected 2022 revenue requirement in Docket EL22-006 of $1,381,406.

The remaining the costs included in the actual 2022 revenue requirement are the MISO and SPP costs net of revenues, totaling $614,963 compared to the estimated 2022 net costs of $673,333.

Attachment F to MDU's filing details the calculation of the net under-recovered balance from 2022, including carrying charges calculated at the Company's last approved overall rate of return. The resulting 2022 cumulative under-recovered balance is $174,203.

The Company also includes a true-up of the 2021 Schedule 26A Return Credit and Other O&M Credit as actual 2021 amounts were not known at the time of filing EL22-006. The details regarding this true-up are found in MDU's Attachment E. This $105 true-up is combined with the under-recovered balance from 2022 and results in the total under-recovered balance of $174,308, as shown on Attachment A.

2023 Revenue Requirement

MDU proposes to recover total projected 2023 costs of $2,169,523. This includes projected costs from the MISO and SPP costs net of revenues detailed in MDU's Attachment B and costs associated with five transmission projects. Those five projects being the Greenway to Hague Line Project, Hague to Herreid Line Project**,** Ellendale to Leola Transmission Project, Dickinson Loop Line Project, and the Greenway Substation and Line Project. This docket continues recovery of these previously approved projects and does not propose any new projects for inclusion in the rider.

One note worthy change with this year's filing is the inclusion of revenues associated with a new Rate 45 Customer in North Dakota. As mentioned in MDU's petition, the customer will take wholesale transmission service on MDU's integrated transmission system at the Company's FERC approved Attachment O rate. This will result in approximately $188,442 in revenue allocated to South Dakota.

The 2023 revenue requirements associated with the five transmission projects are found on Attachment C. The projected 2022 South Dakota share is $1,811,778.

In addition to the projected 2023 costs, the Company also includes the calculation of the projected 2023 Schedule 26A and Other O&M Return Credits, totaling $916, 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.

2023 TCRR Rate

When the projected 2023 costs of $2,169,523 and projected 2023 return credits of $916 are combined with the total 2021 net under-recovery of $174,308, the total revenue requirement to be recovered from customers is $2,342,915. When divided by the projected kWh of 143,560,000, this results in a rate of $0.01632/kWh. MDU proposes this rate be effective May 1, 2023. 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 a decrease of $0.00102/kWh. A typical residential customer using 853 kWh per month will see a decrease of $0.87 per month, or $10.44 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 $0.01632 per kWh, with an effective date of May 1, 2023.