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March 1, 2023

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

Re: Annual Update to Infrastructure
 Rider (IR) Rate 56
 Docket No. EL23-____

Montana-Dakota Utilities Co. (Montana-Dakota) herewith electronically submits for Commission approval the annual update to its Infrastructure Rider (IR) rate, pursuant to the terms of the Company's Infrastructure Rider Rate 56 tariff. Montana-Dakota requests approval of 6th Revised Sheet No. 25 of its electric tariffs to be effective with service rendered on and after May 1, 2023.

The proposed IR rate of \$0.00523 per kWh is applicable to all electric retail rate schedules and reflects a decrease of \$0.00123 per kWh from the current authorized rate. The costs included in the table will be further described below.

| | Current Filing | Prior Filing | Variance |
|------------------------------------|-------------------|------------------|--------------------|
| Thunder Spirit | \$494,766 | \$620,249 | (\$125,483) |
| Infrastructure Projects - Approved | 346,262 | 336,741 | 9,521 |
| Proposed Additions | 0 | 0 | 0 |
| (Over) Recovery Balance | (89,896) | (16,742) | (73,154) |
| | \$751,132 | \$940,248 | (\$189,116) |

Background

On June 15, 2016, the Commission approved a Settlement Stipulation in Docket No. EL15-024, to establish an Infrastructure Rider Rate 56 tariff, allowing for the recovery of infrastructure related charges eligible for recovery under SDCL 49-34A-73. On July 1, 2016 Montana-Dakota implemented the IR for the recovery of significant infrastructure related costs not otherwise included in the Company's currently authorized rates as set forth in Exhibit C of the Settlement Stipulation approved by the Commission in Docket No. EL15-024. This reflected the annual revenue requirement for the Thunder Spirit Wind Facility (Thunder Spirit), net of the

estimated revenue collected through interim rates in effect for the months of January through June 2016, attributable to the costs to be recovered through the IR prior to the implementation of the IR rate. As part of the Settlement Stipulation, Montana-Dakota agreed to defer a portion of costs incurred in the early years of the IR to provide a smoothing effect. Both parties agreed that would result in an under recovered balance which would be offset by lower per unit charges in the later periods covered by the IR. The Company's currently authorized IR rate of \$0.00646 per kWh reflects the projected 2022 revenue requirement related to the Thunder Spirit Wind Farm (including the light mitigation project), Bowdle Substation and Lines, Sidney Transmission Lines, Mandan Substation and Line Relocation, and the Lewis and Clark Control House projects as authorized by the Commission with new rates effective May 1, 2023.

2023 IR Rate Update

Montana-Dakota has prepared an update to its IR rate to reflect actual costs incurred through December 31, 2022 and the projected costs through December 31, 2023. The projected 2023 costs, as allocated to South Dakota, are \$751,132, which includes projected 2023 costs of \$841,028 and a projected over recovery of \$89,896 for 2022 actual costs and projected January – April costs and revenues, including carrying charges based on the overall Rate of Return authorized in Docket No. EL15-024 as shown on Attachment A. The prior year over recovery has increased \$73,154, resulting in the projected over recovered balance. The main driver for the over collection is the 2022 rate base, and corresponding depreciation expense, is less than what was projected in current rates.

Costs to be recovered through the IR are based on South Dakota's share of the monthly plant in service balances, net of accumulated depreciation and associated deferred taxes, an investment tax credit, and operating expenses related to the Thunder Spirit wind project, which includes the addition of the light mitigation project. The operating expenses include labor and benefits, easement charges and a maintenance agreement. Depreciation, property taxes, generation taxes, and expenses assessed by the South Dakota Public Utilities Commission have also been included. The production tax credits associated with the generation provided by Thunder Spirit have been included as a credit within the overall revenue requirement.

Also included in costs to be recovered through the IR are South Dakota's share of the monthly plant in service balances, net of accumulated depreciation and associated deferred taxes, and depreciation and property taxes related to Bowdle Substation and Lines, Sidney Transmission Line, Mandan Substation and Lines Relocation, and Lewis and Clark Substation Control House projects.

The 2022 true up continues the use of the proration method when calculating accumulated deferred income taxes. Pursuant to discussions with the Company's

external auditor, the determination of any projected period rate must follow the IRS proration method in compliance with the normalization rules. It was also determined that the proration method must be used in the same manner for the true up.

The under(over) collected balance includes a carrying charge which is based on the authorized Rate of Return applied to the prior month's ending deferred balance, net of tax. For the Projected 2023 costs, each of the items described above has been included based on the Company's most recent estimates, including income taxes.

There were no new projects that qualified for inclusion in the IR.

Consistent with the prior IR filing, the Company has also included the following:

Lewis and Clark Unit 1 Deferred Accounting Treatment - The Company is continuing to amortize the regulatory asset related to the deferred accounting treatment approved in Docket No. EL19-040. In Docket No. EL21-007, filed on March 11, 2021, the Company provided a projected 2021 schedule of the deferred assets, amortization, and expenses related to the decommissioning of the Lewis and Clark Unit 1. On November 15, 2021, the Commission issued an Order approving the Company's treatment of amortizing the costs related to the decommissioning of deferred assets using the revenue requirement identified in base rates totaling \$616,582 on an annual basis. By applying the annual revenue requirement included in base rates to the amortization of the deferred asset, the result is no additional cost to be recovered through the infrastructure rider. In the current filing, the Company has provided a projected 2023 schedule projecting the continued amortization of the regulatory asset. The balance of the Lewis and Clark Unit 1 regulatory asset projected for December 2023 is \$611,531. This includes an accumulated deferred income tax (ADIT) component that was previously not included in the calculation. The prior year amortization schedules have been revised to include the ADIT component.

Heskett Unit 1 and 2 Deferred Accounting Treatment - In Docket No. EL19-040, the Company also requested deferred accounting treatment for the two Heskett coal units planned to be retired. In Docket No. EL22-007, filed on March 1, 2022, the Company filed its annual update of the IR rate, which included a projected 2022 schedule of the deferred assets, amortization, and expenses related to the decommissioning of the Heskett Units 1 and 2. This schedule proposed an amortization treatment similar to the approved treatment for the Lewis & Clark Unit 1 deferred asset and included a revenue requirement identified in base rates totaling \$920,896 on an annual basis. By applying the annual revenue requirement included in base rates to the amortization of the deferred asset, the result is no additional cost to be recovered through the infrastructure rider. This filing was approved by the Commissions Order dated May 3, 2022. In the current filing, the Company has provided a projected 2023 schedule projecting the continued amortization of the regulatory asset. The balance of the Heskett Units 1 and 2

regulatory asset projected for December 2023 is \$315,731. This also includes an ADIT component that was previously not included in the calculation. The prior year amortization schedules have been revised to include the ADIT component.

The Company has provided restated regulatory asset schedules for all prior periods inclusive of the ADIT component. These schedules are included in Attachment E.

Montana-Dakota notes that there is no addition to the overall revenue requirement related to the coal plant closures above for the infrastructure rider.

An electronic file supporting the attached schedules will be provided to Commission Staff.

The following attachments are provided in support of the rate update:

Attachment A - Summary of the Infrastructure Costs and proposed IR rate.

Attachment B - Projected 2023 revenue requirement calculation.

Attachment C - Actual 2022 revenue requirement calculation.

Attachment D - Calculation of the under-recovered balance from 2022 based on the actual revenue requirement calculation and 2022 revenue collected under the tariff. Estimates are included through April 2023 when new rates are proposed to be effective.

Attachment E – Regulatory Assets Recovery schedules.

The above noted costs are proposed to be recovered through the IR rate effective May 1, 2023 through April 30, 2024. A typical residential customer using 853 KWh would see a decrease of \$1.05 per month, or \$12.60 annually.

Pursuant to the Settlement Stipulation in Docket No. EL15-024, Montana-Dakota agreed to report annual performance of the Thunder Spirit facility. The 2022 average annual capacity factor, transmission curtailments and economic curtailments are as follows:

- A. The actual Thunder Spirit capacity factor for calendar year 2022 was 42.4% representing 577,567 MWh of generation.
- B. Thunder Spirit did not experience transmission curtailments during 2022.
- C. There were economic curtailments of 8,323 MWh for Thunder Spirit in 2022.
- D. There were economic curtailments of 3,716 MWh for Thunder Spirit Expansion in 2022.

Included as Attachment F is the South Dakota "Report of Tariff Schedule Change" form required pursuant to ARSD 20:10:13:26.

The Company will comply with ARSD 20:10:13:18 by posting the Notice shown in Attachment G in a conspicuous place in each business office in its affected electric service territory in South Dakota.

The Company will pay the deposit amount required pursuant to SDCL §49-34A-75 upon the Commission's Order assessing such fee.

Please refer all inquiries regarding this filing to:

Mr. Travis R. Jacobson
Director of Regulatory Affairs
Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, ND 58501
Travis.jacobson@mdu.com

Also, please send copies of all written inquiries, correspondence and pleadings to:

Mr. Brett Koenecke
May, Adam, Gerdes & Thompson
503 South Pierre Street
P.O. Box 160
Pierre, South Dakota 57501-0160

This filing has been electronically submitted to the Commission in accordance with ARSD 20:10:01:02:05. Montana-Dakota respectfully requests that this filing be accepted as being in full compliance with the filing requirements of this Commission.

Sincerely,

/s/ Travis R. Jacobson

Travis R. Jacobson
Director of Regulatory Affairs

Attachments

cc: B. Koenecke