
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: PATRICK STEFFENSEN AND LOGAN SCHAEFBAUER
RE: EL24-007 - 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 Transmission Cost Recovery Rider Rate
DATE: April 17, 2024

BACKGROUND

On March 1, 2024, 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 2023 actual costs and recoveries and projected 2024 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 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 EL23-005, the Commission approved continued recovery of the Phase 1 and Phase 2 of the Ellendale to Leola Transmission Project, Dickinson Loop Line Project, Greenway Substation and Line Project, Greenway to Hague 60 kV Line Project, Hague to Herreid 60 kV Line Project, the MISO and SPP expenses net of revenues, and net of the Basin Facility Agreement and Rate 45 revenue.

In rate case docket EL23-020, MDU proposes to move the five projects mentioned above to base rate recovery, effective on the March 1, 2024 interim rate date. Thus, these projects have been removed from the TCRR as of this same date. Also, MDU is not proposing to recover any new projects in this docket. The proposed revenue requirement results in a rate of negative \$0.00216 per kWh, effective May 1, 2024. This represents a decrease of \$0.00586 per kWh from the current TCRR interim rate and a decrease of \$0.01848 from the rate authorized last year in docket EL23-005.

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 2023 actual revenue requirement and true-up, the forecasted 2024 revenue requirement, and rate calculation.

Actual 2023 Revenue Requirement and Over/Under Recovery

The rate approved in Docket EL23-005 was based on the true-up of prior period costs and revenues and the projected 2023 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 C provides the actual 2023 revenue requirements, including Basin Facility Agreement and Rate 45 revenue, MISO and SPP revenues and expenses, and the revenue requirements associated with the Phase 1 and Phase 2 of the Ellendale to Leola Transmission Project, Dickinson Loop Line Project, Greenway Substation and Line Project, Greenway to Hague 60 kV Line Project, and Hague to Herreid 60 kV Line Project. The actual 2023 revenue requirement, as allocated to South Dakota, is \$2,044,412. This compares to the estimated 2023 revenue requirement in Docket EL23-005 of \$2,169,523.

Attachment F to MDU's filing details the calculation of the net over-recovered balance from 2023, including carrying charges calculated at the Company's last approved overall rate of return¹. The resulting 2023 cumulative over-recovered balance is \$242,711.

The Company also includes a true-up of the 2022 Schedule 26A Return Credit and Other O&M Credit as actual 2022 amounts were not known at the time of filing EL23-005. The details regarding this true-up are found in MDU's Attachment D. This \$8 true-up is combined with the over-recovered balance from 2023 and results in the total over-recovered balance of \$242,719, as shown on Attachment A.

2024 Revenue Requirement

MDU proposes to credit ratepayers the total projected 2024 net revenue of \$62,655. This net revenue credit is due largely to the High-Density Contracted Demand Rate 45 customer MDU began serving in March 2023. This is a North Dakota customer that is taking wholesale transmission service on MDU's integrated transmission system at the Company's FERC-approved Attachment O rate. The South Dakota allocation resulted in a \$367,912 reduction in the 2024 projected revenue requirement and a \$127,152 increase in the over-recovery, for a total of \$495,064 returned to ratepayers. MDU estimates this alone saves the typical residential customer using 853 kWh approximately \$2.98 per month or \$35.76 per year. MDU has also indicated that this customer's load, pending approval from the North Dakota Public Service Commission, has the potential to more than double within the next year if it reaches the full capacity noted in its pending contract, and the benefit of this will be reflected and trued up in next year's TCRR filing.

In addition to the projected 2024 net revenue credit, the Company also includes the calculation of the projected 2024 Schedule 26A Return and Other O&M Credits, totaling \$756, as detailed on Attachment D. These credits reflect the intent of the "refined split method" used for Xcel and Otter Tail in a manner

¹ Starting March 1, 2024, MDU uses the overall rate of return proposed in rate case docket EL23-020. MDU has agreed to true this up in its next TCRR filing to the overall rate of return determined in EL23-020.

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, EL15-024². 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.

2024 TCRR Rate

When the projected 2024 net revenue credit of \$62,655 and projected 2024 return credits of \$756 are combined with the total 2023 net over-recovery of \$242,719, the total revenue credit to be returned to customers is \$306,130. When divided by the projected annual usage of 142,029,000 kWh, this results in a rate of negative \$0.00216 per kWh. MDU proposes this rate be effective May 1, 2024. The calculations supporting this rate are found on the Company's Attachment A.

Compared to the interim rate currently in effect, the proposed rate results in a decrease of \$0.00586 per kWh. A typical residential customer using 853 kWh per month will see a decrease of \$5.00 per month, or \$60.00 per year. When combined with the Infrastructure Rider rate increase from current rates, also effective May 1, 2024, this results in a net decrease of \$3.97 per month, or \$47.64 annually, for the typical residential customer using 853 kWh per month.

Compared to the rate approved last year in docket EL23-005, the proposed rate results in a decrease of \$0.01848 per kWh. A typical residential customer using 853 kWh per month will see a decrease of \$15.76 per month, or \$189.16 per year. When combined with the Infrastructure Rider rate decrease from the rate approved in EL23-006, also effective May 1, 2024, this results in a total decrease of \$16.86 per month, or \$202.36 annually, for the typical residential customer using 853 kWh per month.

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 negative \$0.00216 per kWh, with an effective date of May 1, 2024.

² Starting March 1, 2024, MDU uses the overall rate of return proposed in rate case docket EL23-020. MDU has agreed to true this up in its next TCRR filing to the overall rate of return determined in EL23-020.