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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** PATRICK STEFFENSEN AND LOGAN SCHAEFBAUER  
**RE:** EL24-008 - 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 17, 2024

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### **BACKGROUND**

On March 1, 2024, 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 (IRR). The Infrastructure Rider was established in rate case docket EL15-024. The Infrastructure Rider initially allowed for the recovery of Thunder Spirit Wind (TSW1).

In previous dockets, the Commission approved recovery of MDU's Bowdle Substation and Lines Project, the Thunder Spirit Wind Expansion Project (TSW2), the Sidney Transmission Line Project, the Mandan Substation and Lines Project, and the Lewis & Clark Substation Project.

In rate case docket EL23-020, MDU proposes to move the projects mentioned above to base rate recovery, effective on the March 1, 2024 interim rate date. Thus, these projects have been removed from the IRR as of this same date. Also, MDU is not proposing to recover any new projects in this docket. The proposed revenue requirement, including an under-recovery for 2023 costs and carrying charges, is \$559,737 which results in a rate of \$0.00394 per kWh. The proposed rate is an increase of \$0.00121 per kWh from the current IRR interim rate and a decrease of \$0.00129 from the rate authorized last year in docket EL23-006. MDU proposes the rate be effective May 1, 2024.

### **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.

#### **Regulatory Assets Recovery**

In dockets EL21-007 and EL22-007, the Commission approved MDU's request to reflect the annual revenue requirement savings due to the Lewis and Clark 1 and Heskett 1 and 2 retirements to offset the related amortization of the accelerated depreciation, net of excess deferred income taxes, and the decommissioning and employee related costs. MDU amortized the regulatory asset related to the

deferred accounting treatment of Lewis and Clark 1 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 1. This resulted in no additional cost to be recovered through the infrastructure rider during those years. Similar treatment was used for Heskett Units 1 and 2 by using \$920,896 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.

Effective March 1, 2024 with the interim rates in rate case docket EL23-020, there is a revenue requirement in the infrastructure rider to recover the remainder of the regulatory assets. Since base rates will reflect the cost savings associated with the retirements of Lewis and Clark 1 and Heskett 1 and 2, there is nothing to offset this revenue requirement in the infrastructure rider. MDU indicated it chose to amortize the remaining balance over three years to help mitigate the rate impact to customers. This results in a \$392,292 revenue requirement over the next three years. MDU provided additional details of these revenue requirements in Attachment B.

### **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. The report outlines an actual capacity factor of 35.8%, no transmission curtailments, and economic curtailments of 15,132 MWh for TSW1 and 6,757 MWh for TSW2 in 2023. This capacity factor is well below the 40% capacity factor that was determined necessary for the project to break even in rate case docket EL15-024. However, the total capacity factor for the years 2016 through 2023 is approximately 42%. MDU has indicated that the capacity factor was lower than previous years due to lesser winds in 2023, offline turbines with failed gearboxes for extended periods due to supply chain issues, and curtailments due to transmission congestion. MDU has also recently learned that the turbine manufacturer Nordex will be paying MDU a penalty payment of approximately \$78,000 for not meeting its contractual 97 percent availability guarantee. This amount will be included in next years IRR docket to pass on the revenue to customers.

## **REVENUE REQUIREMENT AND RATE**

### **Actual 2023 Revenue Requirement and Over/Under Recovery**

The rate approved in Docket EL23-006 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 Infrastructure Rider rates, comparing actual recoveries to actual costs.

Attachment C of MDU's filing provides the calculation of the actual 2023 South Dakota revenue requirement, which totals \$989,557. This compares to the projected 2023 revenue requirement from

Docket EL23-006 of \$841,028. This difference is largely attributable to the actual production tax credits being far less than what was projected last year.

Attachment D of MDU's filing compares the January 2023 through April 2024 revenue requirement of \$1,205,993 with the revenue recovered from ratepayers those months of \$1,031,179. Given the year-beginning over-recovered balance of \$11,328, the cumulative balance is an under-recovered balance of \$163,486. The 2023 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 Company's last approved overall rate of return<sup>1</sup>. The resulting total cumulative under-recovered balance is \$166,857.

### **Infrastructure Rider Rate**

The projected 2024 Infrastructure Rider revenue requirement included in MDU's filing was \$392,292. This combined with the under-recovered balance of \$166,857 and gross receipts tax amount of \$588, results in a total revenue requirement of \$559,737.

MDU's filing proposes a rate of \$0.00394 per kWh based on the proposed revenue requirement and projected kWh of 142,029,000. 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 an increase of \$0.00121 per kWh. A typical residential customer using 853 kWh per month will see an increase of \$1.03 per month, or \$12.36 per year. When combined with the Transmission Cost Recovery Rider rate decrease 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 EL23-006, the proposed rate results in a decrease of \$0.00129 per kWh. A typical residential customer using 853 kWh per month will see a decrease of \$1.10 per month, or \$13.20 per year. When combined with the Transmission Cost Recovery 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 Infrastructure Rider filings. Staff recommends the Commission approve the revised Infrastructure Rider rate of \$0.00394 per kWh, with an effective date of May 1, 2024.

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<sup>1</sup> 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 IRR filing to the overall rate of return determined in EL23-020.