MONTANA-DAKOTA
UTILITIES CO.
A Subsidiary of MDU Resources Group, Inc.

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June 20, 2025

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

Re: Request for Waiver of Fuel and Purchase Power Adjustment Rate 58
Docket No. EL25-___

Montana-Dakota Utilities Co. (Montana-Dakota) herewith electronically files a request for a waiver of the Fuel and Purchased Power Adjustment Rate 58 (FPPA) tariff to allow the Company to retain the Production Tax Credits (PTC) resulting from the repowering of the Cedar Hills Wind Farm (Cedar Hills) and Phase 2 of the Diamond Willow Wind Farm (Diamond Willow Phase 2).

Cedar Hills is located near Rhame, ND and is comprised of thirteen 1.5 MW wind turbines rated at 19.5 MW. It went into commercial operation in 2010 with an original cost of $43.9 million and has a current netbook value of $16.9 million. Diamond Willow Wind Farm is located near Baker, MT. Diamond Willow Phase 1 is comprised of thirteen 1.5 MW wind turbines rated at 19.5 MW and went into commercial operation in 2007. Diamond Willow Phase 2 is comprised of seven 1.5 MW wind turbines rated at 10.5 MW and went into commercial operation in 2010. It had an original cost of $24.2 million and has a current netbook value of $15.7 million. The total nameplate rating for Diamond Willow Wind Farm is 30 MW.

Montana-Dakota plans to repower Cedar Hills and Diamond Willow Phase 2. The repower projects are expected to be completed by the end of October 2025 and will be eligible for PTCs for a period of ten years following commercial operation. The Cedar Hills and Diamond Willow Phase 2 repowers are mainly focused on replacing generators, gearboxes, and refurbishing or replacing blades on the turbines. The turbines, subject to the repowering efforts, have been in service for over 15 years and are no longer eligible for PTCs in the current configuration.

In order to qualify for PTCs, Montana-Dakota must meet the 80/20 rule for both Cedar Hills and Diamond Willow Phase 2 as defined in IRS Notice 2016-31, Section 6.01. Upon completion, the fair market value for tax reporting purposes of the retained components for Cedar Hills is estimated at $4.46 million. Montana-Dakota's current estimate for the Cedar Hills repower project is $25.1 million. Therefore, the retained components are approximately 15.1 percent of the total cost of the Cedar Hills repower project, which meets the 80/20 rule. The fair market value for the retained components for Diamond Willow Phase 2 is estimated at $2.6 million and the current estimate for project costs is $13.6 million. Therefore, the retained components are approximately 16.0 percent of the total cost, which meets the 80/20 rule.

The nameplate capacity for the turbines will be unchanged at 1.5 MW per turbine. However, the repowers will include blade upgrades which include gurney flaps, vortex generators, and improved leading-edge protection as well as control upgrades. This will marginally increase the overall generation from the turbines (via an increased capacity factor) due to higher efficiency and lower anticipated maintenance on the upgraded items. This will lower fuel costs to customers which will be passed through the FPPA.

Additionally, the repower projects are forecasted to minimize many standard maintenance items which would normally appear on turbines of this age. Montana-Dakota is forecasting that, due to age, there would be increased maintenance, troubleshooting and major component replacements that would cause turbines to be offline in future years.

Montana-Dakota's Fuel and Purchased Power Adjustment Rate 58 Section 3.b.4. states that the adjustment should reflect the Company's fuel and purchased power costs, "Less Project Tax Credits (PTC) adjusted for the effect of income tax". Therefore, Montana-Dakota requests that the South Dakota Public Utilities Commission (Commission) issue a waiver from this tariff requirement for Cedar Hills and Diamond Willow Phase 2 repowers as previously authorized in Docket No. EL22-021 for the Diamond Willow Phase 1 repower. This waiver is necessary as Montana-Dakota is not including the costs associated with the repower in current base rates or the Infrastructure Rider (IR) Rate 56. At the time of the next rate case, the treatment of PTCs can be readdressed if the Commission were to grant the Company's request in this docket.

The expected life for Cedar Hills and Diamond Willow Phase 2 is 25 years. The repowers of the turbines are not expected to substantially increase the life of the overall facilities. The modeling of the repowers was completed when there was approximately 12 years of life remaining, and thus the modeling was performed over 12 years.

Cedar Hills and Diamond Willow Phase 2 were both originally placed with a 5 percent depreciation rate to represent a 20-year life. In Docket No. EL23-020, the depreciation rate for Cedar Hills was changed to 3.86 percent and Diamond Willow Phase 2 was changed to 4.42 percent. The updated depreciation rates were used in the models.

Both scenarios (repower and no repower) used the same authorized depreciation rates; therefore, Montana-Dakota believes the results would be consistent if the depreciation rates were adjusted to reflect a zero-book balance under both scenarios.

For the purpose of modeling these projects, Montana-Dakota chose to use the currently authorized return on equity as approved in Docket No. EL23-020.

Montana-Dakota used a conservative estimate of 6.55 percent in the models to reflect the higher end of the cost of new debt. This is the Company's general approach for modeling large capital projects that have the potential to require new long-term debt issuances. While it is not likely that Montana-Dakota will issue long-term debt specifically for these projects, the Company continues to use the standard approach when modeling these projects. Therefore, the 6.55 percent is not tied to any actual cost of debt currently held. The Company's overall weighted cost of long-term debt as of December 31, 2024 was approximately 4.73 percent.

The total allocated cost of the repower of Cedar Hills is estimated to be $25.1 million and the portion to South Dakota is approximately $1.2 million. The total cost of the repower of Diamond Willow Phase 2 is estimated to be $13.6 million and the portion allocated to South Dakota is approximately $629,000. The anticipated PTCs to be generated by the facilities during the 10-year life as reflected in the Company's financial modeling is $22.5 million for Cedar Hills and $13.3 million for Diamond Willow Phase 2. The portion allocated to South Dakota is approximately $1.0 million for Cedar Hills and $614,000 for Diamond Willow Phase 2, as grossed up for the effect of income taxes and using the current rate of $0.030 per kWh.

Attachments A and E show the revenue requirements and cost per kWh with and without the repowers for the Company's Integrated System and allocated to South Dakota. Attachment A shows that repowering Cedar Hills results in an average cost of 0.624 cents per kWh, while customers would pay an average of 3.413 cents per kWh if Montana-Dakota did not repower. Attachment E shows repowering Diamond Willow Phase 2 results in an average cost of 0.486 cents per kWh, while customers would pay an average of 3.507 cents if Montana-Dakota did not repower. This is primarily due to:

- The repowers qualify for PTC revenue which largely offsets the capital investment associated with the repowers;
- The repowers provide for marginal increases to the capacity factors for the turbines. This model assumes a 5 percent increase in the capacity factors from the realized average capacity factors from 2020 through 2022;
- The repowers will accelerate the replacement of various components; therefore, the no repower scenarios are based on the assumption that capital investment will be required annually to replace similar components; and
- Absent the repower, Cedar Hills and Diamond Willow Phase 2 capacity factors are expected to decrease from that realized from 2020 through 2022.

Further, Attachments A and E show the annual volumes are projected to increase under the repower scenarios. Assuming the increased volumes would offset the purchases or be sold into the MISO market at an average LMP price of $28.43 the savings for South Dakota customers would be approximately $3,705 for Cedar Hills and $2,182 for Diamond Willow Phase 2 as shown in the table below.

	Cedar Hills			Diamond Willow Phase 2		
	Repower	No Repower	Increase	Repower	No Repower	Increase
kWh	59,236,960	56,416,152	2,820,808	34,893,993	33,232,374	1,661,619
Est. MISO LMP			$28.43			$28.43
Est. Savings			$80,196			$47,240
South Dakota Share			4.62%			4.62%
Est. Annual Savings			$3,705			$2,182

Attachments B and F show detailed projected 12-year revenue requirements and depreciation schedules for repowering Cedar Hills and Diamond Willow Phase 2. Page 1 represents a yearly Projected Income Statement for the 12-year life associated with Cedar Hills and Diamond Willow Phase 2. Page 2 represents the depreciation schedules of the repowers based on the modeled costs and the currently approved depreciation rates for these types of assets.

Attachments C and G show detailed projected 12-year revenue requirements and depreciation schedules associated with not repowering Cedar Hills and Diamond Willow Phase 2. Page 1 represents a yearly Projected Income Statement for the remaining 12-year life associated with these projects. Page 2 represents the depreciation schedules of the maintenance expenses forecasted for the turbines and the currently approved depreciation rates for these types of assets.

Attachments D and H show the present value of the revenue requirements with and without the repowers for Cedar Hills and Diamond Willow Phase 2. The remaining life at the time of modeling was estimated to be 12 years.

In summary, Montana-Dakota respectfully requests the Commission grant the Company's request as outlined above. Repowering Cedar Hills and Diamond Willow Phase 2 has been shown to be the most economical decision for the Company's customers. Because the timing of the repowers not matching with the filing of a general rate case, allowing Montana-Dakota to retain the PTCs will allow the investment that will provide an ultimate benefit to customers in the long term. Allowing the retention of the PTCs will not harm customers in the short term and can be addressed more fully when the Company files a future general rate case.

If you have any questions regarding this matter, please contact me at (701) 222-7855 or travis.jacobson@mdu.com.

Sincerely,

/s/ Travis R. Jacobson

Travis R. Jacobson
Vice President of Regulatory Affairs