
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: ERIC PAULSON & AMANDA REISS
RE: EL25-023 - IN THE MATTER OF THE FILING BY MONTANA-DAKOTA UTILITIES CO., A
SUBSIDIARY OF MDU RESOURCES GROUP INC., FOR APPROVAL OF A WAIVER OF FUEL
AND PURCHASE POWER ADJUSTMENT RATE 58
DATE: AUGUST 7, 2025

BACKGROUND

On June 20, 2025, the South Dakota Public Utilities Commission (Commission) received a filing from Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group Inc. (Montana-Dakota or Company) requesting a waiver of the Fuel and Purchased Power Adjustment (FPPA) Rate 58 tariff to allow the Company to retain the Production Tax Credits (PTCs) from the repowering of Cedar Hills Wind Farm (Cedar Hills) and Phase 2 of the Diamond Willow Wind Farm (Diamond Willow Phase 2). Montana-Dakota's FPPA tariff (State of South Dakota Electric Rate Schedule – SDPUC Volume No. 2, Sheet No. 27, Section 3.b.4) states that the adjustment should reflect the Company's fuel and purchased power costs less PTCs adjusted for the effect of income tax.

Cedar Hills was originally placed in service in 2010 thus, is no longer eligible for PTCs in the current configuration. The repowering is mainly focused on replacing wear and tear items such as motors, generators, gearboxes, and refurbishing or replacing blades, effectively resulting in a new turbine on top of an existing structure¹. It is this new investment which will requalify these facilities for an additional ten-year PTC period, as the fair market value of the used property that is part of the repowered wind turbines is expected to be less than twenty percent of the total value of the repowered wind turbines.

Diamond Willow Wind Phase 2 was originally placed in service in 2010, thus is no longer eligible for PTCs in the current configuration. The repowering is mainly focused on replacing wear and tear items such as motors, generators, gearboxes, and refurbishing or replacing blades, effectively resulting in a new turbine on top of an existing structure². It is this new investment which will requalify these facilities for an additional ten-year PTC period, as the fair market value of the used property that is part of the repowered wind turbines is expected to be less than twenty percent of the total value of the repowered wind turbines.

All the turbines that are subject to the repowering efforts are currently included in South Dakota rate base, and the associated PTCs were credited to ratepayers through the FPPA. Montana-Dakota will not include the costs of repowering in rates until their inclusion is requested in a future general rate case and therefore requests PTCs not be included in the FPPA as well.

¹ Montana-Dakota Response to Staff DR 1-4

² Montana-Dakota Response to Staff DR 1-4

STAFF ANALYSIS

On September 14, 2022, the Commission issued an Order in docket EL22-021 to waive this FPPA rate for the Diamond Willow 1 repower. In that prior docket, Staff's analysis and recommendation regarding the new PTCs focused on three main areas: 1) the appropriate FPPA treatment given the new investment which makes them eligible, 2) the benefit of lower fuel costs, and 3) an analysis of projected future rate case activity.

While there are similarities regarding the Montana-Dakota repowering projects in this docket, the associated PTCs, and the proposal by Montana-Dakota compared to that of Montana-Dakota's project in the previous docket, Staff's analysis of this docket focused on only the first two main areas. The projected future rate case activity is not a factor in this instance since Montana-Dakota has the ability to put the projects in the infrastructure rider if they choose. An analysis of these two areas is described below.

Appropriate FPPA Treatment

As indicated above, this repowering process will replace wear and tear items such as motors, generators, gearboxes, and refurbishing or replacing blades. Thus, this repowering project will result in new turbines on top of existing structures. As in past dockets, this process will essentially create brand new turbines on top of existing structures, and it is the cost of this repowering project (and the brand-new turbines) that creates the new PTCs. Therefore, it would be reasonable not to include the PTCs in the FPPA until the costs of repowering are included in Montana-Dakota's cost of service.

Exhibits B and F to Montana-Dakota's filing provides the projected annual revenue requirements and associated PTCs for the repowering projects on a total company basis. On Exhibit B, as shown under the "Year 1" column, the first-year revenue requirement for the Cedar Hills repowering is \$764,052 more than the annual value of the PTCs associated with this project that Montana-Dakota will receive, or \$35,297 as allocated to South Dakota³. On Exhibit F, as shown under the "Year 1" column, the first-year revenue requirement for the Diamond Willow Phase II repowering is \$392,173 more than the annual value of the PTCs associated with this project that Montana-Dakota will receive, or \$18,117 as allocated to South Dakota⁴. Combined the first-year revenue requirement is \$53,414. Therefore, individually and combined, ratepayers benefit by not having to pay the year-one revenue requirements (or partial year-one revenue requirement) of either project, even if that were to mean getting credited for the associated PTCs through the FPPA.

Lower Fuel Cost Benefit

³ \$764,052 x 4.619759%

⁴ \$392,173 x 4.619759%

As indicated in Montana-Dakota's filing the repowering process "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". As noted on page 4 of the Petition, Montana-Dakota estimates that the overall FPPA benefits, including increased wholesale revenues, for South Dakota customers will be approximately \$3,700 per year for Cedar Hills and \$2,200 per year for Diamond Willow Phase 2 or a total of approximately \$5,900 per year. Customers will see these benefits immediately despite the fact they will not see the cost of the repowering until Montana-Dakota requests inclusion of these costs in a future general rate case.

RECOMMENDATION

Given the two areas of analysis as described above, Staff recommends the Commission approve the determination that these new PTCs resulting from the repowering of Cedar Hills and Diamond Willow Wind Phase 2 are not subject to the provisions of Montana-Dakota's FPPA tariff until Montana-Dakota requests inclusion of the costs of repowering in a future general rate case.

Staff would also recommend that this approval shall not preclude Commission review of the projects, including project and cost management and accounting data and methods, review of the prudence and reasonableness of rate recovery in any determination of rates (including rate filings by Montana-Dakota or rate reviews initiated by the Commission), and that it does not guarantee any such rate recovery.