STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: PATRICK STEFFENSEN, BRITTANY MEHLHAFF, AND AMANDA REISS

RE: EL25-039 - IN THE MATTER OF THE FILING BY MONTANA-DAKOTA UTILITIES CO., A SUBSIDIARY OF MDU RESOURCES GROUP, INC., UPDATE TO INFRASTRUCTURE RIDER (IR) RATE 56 AND REQUEST FOR WAIVER OF FUEL AND PURCHASE POWER ADJUSTMENT RATE 58

DATE: JUNE 23, 2026

BACKGROUND

On October 31, 2025, the South Dakota Public Utilities Commission (Commission) received a filing from Montana-Dakota Utilities Co., a Subsidiary of MDU Resources Group Inc. (MDU or Company), for approval to update its Infrastructure Rider (IR) rate. The filing also requests a waiver of Fuel and Purchase Power Adjustment Rate 58.

The Commission approved the establishment of the Infrastructure Rider Rate 56 tariff in docket EL15-024. The tariff allows for recovery of infrastructure related charges eligible for recovery under SDCL §§ 49-34A-73. MDU implemented its first IR Rate on July 1, 2016. The most recent IR annual filing, Docket EL25-007, authorized recovery of the revenue requirement associated with the Wishek Substation Rebuild and Cedar Hills SCADA Controls Upgrade as well as the regulatory assets related to coal unit decommissioning and related amortization. The rate resulting from Docket EL25-007 was effective with service rendered on and after May 1, 2025.

In addition to the items already being recovered, in this docket, MDU also proposes to include the costs associated with the Badger Wind, Glendive's Breakers, and Stanley Rebuild projects. The proposed revenue requirement of $1,497,124, proposed to be recovered over a fourteen-month period from March 1, 2026 through April 30, 2027, resulting in a rate of $0.01093 per kWh.

Although MDU normally files its IR by March 1st each year for rates to be effective May 1st, MDU filed this docket earlier than normal to more closely match the Badger Wind purchase and in-service date. MDU exercised a purchase option in its Power Purchase Agreement (PPA) with Badger Wind. The North Dakota Public Service Commission approved MDU's application for an Advanced Determination of Prudence (ADP) and Certificate of Public Convenience and Necessity (CPCN) on September 24, 2025. Following this approval, MDU was able to plan to move forward with the purchase option and prepared the out of period IR filing which was filed October 31, 2025. Prior to filing, MDU discussed the timing of the filing with Staff. While MDU could have requested rates be effective as of the in-service date of Badger Wind in December 2025, Staff indicated additional time would be needed to review the resource

planning justification regarding the Badger Wind project. Therefore, MDU proposed an effective date of March 1, 2026.

On November 20, 2025, the Commission issued an Order Assessing Filing Fee; Order Authorizing Executive Director to Enter into Consulting Contracts; Order Granting Waiver. This order approved MDU's request for waiver of the Fuel and Purchased Power Adjustment Rate 58.

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, updates regarding previously approved items, new projects proposed for recovery, the updated 2025 revenue requirement and true-up, the forecasted 2026 revenue requirement, and rate calculation.

EXISTING PROJECTS

Wishesk Rebuild

The Wishesk Rebuild project will rebuild the Wishek Transmission Substation and reroute eight transmission lines[1], each less than 0.5 miles in length. The new substation is currently under construction and is located close to the existing substation. The 115/41.6 kV substation was built in the early 1960's and was later expanded to add the 230 kV addition in the early 1980's. The Company stated that there were multiple replacements and upgrades made to the substation over its 65-year life span, but ultimately a complete replacement was needed due to many factors including age and condition, complexity to rebuild at current location, outage durations, safety, physical limitations, system configuration, operational flexibility, and costs.[2] In this filing, MDU adds two funding projects[3] to the 2025 Wishek additions, as the sub-projects were in-service sooner than previously expected. With all sub-projects in-service as of the end of 2025, the Wishesk Rebuild project is complete. MDU provided[4] the following table with the in-service dates and costs (total Company) for each funding project:

Wishek Rebuild Projects	In-Service Date	Actual Costs	Estimated Costs
FP-322564 Rebuild 230kV Wishek Substation	8/20/2025	$16,652,760	$16,826,741
FP-324145 TL089-1 Wishek-Napoleon 230kV	12/8/2025	688,129	1,222,604
FP-323218 TL041-1 Wishek-Ashley 46kV	12/8/2025	297,263	522,893
FP-323254 KEM REC 46kV	12/8/2025	549,332	368,518
FP-327104 Reroute into Wishek Substation	12/8/2025	389,229	464,687
FP-323216 TL040-1 Wishek-Linton 115kV	12/8/2025	409,838	371,403
Total		$18,986,551	$19,776,846

[1] (2) 230kV, (1) 115 kV, and (5) 41.6 kV lines.
[2] MDU Response to Staff DR 1-2.
[3] FP-322564 and FP-327104.
[4] MDU Response to Staff DR 3-1.

The Wishek Rebuild Project costs included in Attachment B of the Company's filing reflect the estimated costs totaling $19,776,846 at a total company level, or $942,609 at the South Dakota level. Costs will be trued up to actuals in the next IR filing.

Cedar Hills SCADA Controls Update

This project will upgrade the SCADA system to align and function with the controls upgraded on the turbines. This upgrade will allow the Company to derate towers individually, which will increase safety, limit down time, and increase overall production of the wind farm. The upgrade will allow MDU to have a broader control of the towers, again increasing safety while also improving availability by limiting reliance on outside vendors. The Cedar Hills SCADA Control Update project was completed and in-service in September 2025.

Regulatory Assets

The Commission previously approved MDU's request to amortize the regulatory asset related to the deferred accounting treatment for its retired power plants (Lewis and Clark 1 and Heskett 1 and 2), offset by the retirement savings associated with these units for costs currently included in base rates. This resulted in no increase in rates, while at the same time, reducing the regulatory asset balance to be recovered at the time of the next rate case.

The determination of new base rates in Docket EL23-020 eliminated the need to continue to offset the regulatory asset balance, as base rates now reflect the cost savings associated with the plant retirements. Therefore, the remaining regulatory asset balance as of March 1, 2024, must be recovered from customers. The remaining regulatory asset balance was amortized over three years and is recovered through the IR. This results in an annual revenue requirement of $392,292. MDU provided additional details in Attachments B and C.

NEW PROJECTS

Badger Wind Project

The Badger Wind Project is a 250 MW wind project located near Wishek, North Dakota. The project consists of 92 2.82 MW wind turbines. On November 24, 2024, MDU entered into a 20-year PPA with Badger Wind, LLC for 150 MW output purchase from the 250 MW Badger Wind Project. The PPA included an option for MDU to purchase a 49 percent (122.5 MW) ownership interest. Following approval of its application for an ADP and CPCN from the North Dakota Public Service Commission on September 24, 2025, MDU moved forward with exercising the purchase option. MDU's purchase price for Badger Wind is $294 million, with estimated internal legal fees, employee labor, and capitalized

interest adding an additional $1.5 million[5] for a total project cost of $295.5 million ($13,651,388 on a SD level).[6]

The prudence of the Badger Wind resource addition was reviewed by Colton Kennedy of CMK Energy Group. This included a review of MDU's 2024 Integrated Resource Plan (IRP), procurement process, and the financial decision to acquire ownership in the facility.

The review found that the IRP process, tools, and assumptions were generally reasonable and supportive of the resource recommendation to enter into a PPA and ultimately acquire an ownership stake in the Badger Wind facility. MDU used an industry accepted resource-expansion planning model, EGEAS, to evaluate resource expansion plans across MISO resource adequacy cases, including summer and winter planning conditions. The IRP considered an appropriate range of generation technologies, including thermal resources, wind, solar plus storage, battery storage, capacity purchases, and demand response. The supply-side cost, performance, and emissions assumptions were prepared by Burns & McDonnell Engineering Company, Inc. and align well with industry data points.

Badger Wind was identified as a cost-efficient solution across IRP scenarios. The supplemental IRP analysis modeled the final Badger Wind ownership/PPA structure and showed that the 122.5 MW ownership interest plus 27.5 MW PPA reduced net present value revenue requirements relative to the original base cases.

The principal concern identified in the review is that MDU lacked a transparent and competitive procurement process in selecting the Badger Wind facility. While the Company has defended its selection with context that Badger Wind was fully permitted, qualified for production tax credits, supported by a signed generator interconnection agreement, ready for construction, and located near MDU's transmission system, there is no record of alternatives being solicited. As a reasonableness check, the Badger Wind PPA price did not appear facially above contemporaneous regional wind pricing.

Overall, the review concluded that the procurement process was less robust than a competitive solicitation, but the resource addition appears reasonable based on the IRP analysis, project-specific facts, and available market benchmarks. Staff recommends future resource acquisitions be supported by competitive sourcing or a clearer contemporaneous record explaining why competitive sourcing was not practical.

Glendive's Breakers

This project will replace four existing 115 kilovolt power circuit breakers, control cable, and associated bus work at MDU's Glendive Turbine Transmission Substation due to component failure, age, and condition. The replacement and upgrades will take place at the existing substation. The Glendive Turbine Transmission Substation power circuit breakers, bus work, and control cables were installed in

[5] Filing, page 3.
[6] Attachment C, page 4.

1978, with maintenance and testing completed through the life of the equipment.[7] While the overall substation and equipment are in good condition, the circuit breakers have failing or failed bushings that are no longer serviceable at a reasonable cost. Replacing the high voltage bushing is most reasonable alternative for this need and the upgraded equipment will provide increased reliability for MDU's customers.[8]

MDU expects the project to be in-service October 2026, with a total estimated cost of $1,363,135, or $35,944 at the South Dakota level.[9]

Stanley Rebuild

The Stanley Rebuild project will rebuild MDU's Stanley Transmission Substation and reroute existing transmission lines from the current Stanley Transmission Substation to the new Stanley Transmission Substation. The transmission line reroutes involve realigning three transmission lines[10], each less than 0.5 miles in length. The new Stanley Transmission Substation is currently under construction just east of the existing substation. The Stanley 115/69 kV substation was built in 1969. The substation age and condition, outage duration, physical limitations, site limitations, operational flexibility, and costs determined a new substation was the best option over equipment replacement and rebuild at the existing location.[11] MDU considered equipment replacement but that option was eliminated due to site conditions (grading, foundations, control cable, conduits, maintenance) along with outage constraints. Rebuilding the substation at the current location was determined to not be a feasible option due to extended outages that would have been needed to rebuild the site safely.[12]

MDU expects the project to be in service December 2026.[13] The Company's filing reflects estimated costs of $6,070,000 ($290,730 at the South Dakota level). In response to Staff's data request, the Company states the current estimated costs are approximately $5.064 million (total Company) compared to the initial estimate of approximately $6.07 million.[14] Costs will be trued up in the next filing.

UPDATED 2025 REVENUE REQUIREMENT AND OVER/UNDER RECOVERY

The rate approved in Docket EL25-007 was based on the true-up of prior period costs and revenues and the projected 2025 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

[7] Attachment B, page 5.
[8] Attachment B, pages 5-6.
[9] Attachment B, page 4.
[10] (2) 115 kV and (1) 69 kV lines.
[11] MDU Response to Staff DR 1-2.
[12] MDU Response to Staff DR 1-3.
[13] Attachment B, page 7.
[14] MDU Response to Staff DR 3-2.

Company's calculation of the under/over collection of costs incorporated in the new Infrastructure rates, comparing actual recoveries to actual costs.

Attachment C of MDU's filing provides the calculation of the updated 2025 South Dakota revenue requirement, which totals $507,525[15]. This revenue requirement calculation consists of actual costs through September 2025 and projected costs for October through December 2025. This compares to the projected revenue requirement from Docket EL25-007 of $398,977[16]. The updated 2025 revenue requirement is higher than previously estimated due to the additional funding projects for the Wishesk Substation project going into service earlier than expected in 2025 and due to the addition of the Badger Wind project in December 2025. Staff believes it is appropriate for MDU to begin recovering costs associated with the Badger Wind project as of its in-service date of December 2025, since absent MDU exercising the purchase option, customers would have been paying for the Badger Wind PPA through the fuel clause beginning in December 2025 anyway. Beginning recovery in December 2025 also allows customers to begin receiving the PTCs. Although the Company was in a cumulative over-collection position in September 2025, as these projects costs are added at the end of 2025, the balance shifts to an under-collection.

Attachment D of MDU's filing compares the January 2025 through February 2026 revenue requirement of $707,011 to the revenue estimated to be collected through February 2026 of $494,710. The estimated cumulative under-collected balance, including carrying charges, as of February 2026 is $236,841.

2026 REVENUE REQUIREMENT

Attachment B of MDU's filing provides the calculation of the 2026 Projected Revenue Requirement, excluding the under/over recovery. MDU's Attachment A summarizes the total 2026 revenue requirement. The revenue requirements for the Badger Wind, Cedar Hills – SCADA Controls, Wishek Rebuild, Glendive Breakers, and Stanley Rebuild projects totals $867,403. The revenue requirement associated with the regulatory assets[17] is $392,880. Adding these revenue requirements along with the projected under-collected balance as of February 28, 2026, results in a total 2026 revenue requirement of $1,497,124.

INFRASTRUCTURE RIDER RATE

MDU proposed a rate of $0.01093 per kWh be implemented March 1, 2026. This rate is based on the revenue requirement of $1,497,124 divided by the projected kWh for the 14-month period March 1, 2026 through April 30, 2027.

[15] $392,878 regulatory asset revenue requirement + $114,647 project revenue requirements
[16] $392,880 regulatory asset revenue requirement + $6,097 project revenue requirements; excluding projected under/over recovery
[17] Including Gross Receipts Tax. See Attachment B, page 11.

The revised rate will be implemented July 1, 2026, resulting in a larger under-collected balance due to the current rate of $0.00261 per kWh being in effect through June 30, 2026. However, MDU and Staff have agreed that instead of recalculating the rate based on the increased under-collected balance and a smaller recovery period, the proposed rate of $0.01093 should be implemented on July 1, 2026. MDU anticipates this will result in more stable rates for customers as the projects currently in the rider will depreciate resulting in lower revenue requirements and the 2027 revenue requirement will only include 2 months of the regulatory asset recovery[18]. Updating the rate based on the July 1st effective date would result in a larger rate for customers this year, likely followed by a decrease next year[19]. Implementing the rate as proposed will smooth out the rate impact for customers.

RECOMMENDATION

Staff recommends the Commission approve the Infrastructure Rider rate of $0.01093 per kWh, with an effective date of July 1, 2026.

[18] The remaining regulatory asset balance was amortized over 3 years beginning March 1, 2024.
[19] Note: Staff does not know yet what additional projects MDU may propose to include in its next filing.