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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS

**FROM:** ERIC PAULSON, LOGAN SCHAEFBAUER, AND JENNIE FUERST

**RE:** EL25-006 - 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 3, 2025

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### BACKGROUND

On February 28, 2025, 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 2024 actual costs and recoveries and projected 2025 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.

In rate case docket EL23-020, MDU moved the previously approved projects to base rate recovery.

Most recently, in Docket EL24-007, no projects were requested for recovery and the Commission approved continued recovery of the MISO and SPP expenses net of revenues, and net of the Basin Facility Agreement and Rate 45 revenue.

Also, MDU is not proposing to recover any new projects in this docket. The proposed revenue requirement results in a rate of negative \$0.00127 per kWh, effective May 1, 2025. This represents an increase of \$0.00089 per kWh from the current TCRR rate.

### 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 2024 actual revenue requirement and true-up, the forecasted 2025 revenue requirement, and rate calculation.

MDU filed revisions to certain impacted pages on the Attachments of the filing to correct for an error found in the review of the filing. An update to the revenue requirement has been made to reflect an updated true-up to the 2023 Actual MISO Schedule 26A costs calculated in Exhibit D and also shown on Exhibit A.

With these revisions, the revised proposed revenue requirement, including an under-recovery for 2024 costs and carrying charges, is negative \$173,656 which results in the same rate as originally proposed of negative \$0.00127 per kWh. The proposed rate is an increase of \$0.00089 per kWh from the current TCRR rate.

#### **Actual 2024 Revenue Requirement and Over/Under Recovery**

The rate approved in Docket EL24-005 was based on the true-up of prior period costs and revenues and the projected 2024 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 2024 revenue requirements, including Basin Facility Agreement and Rate 45 revenue, MISO and SPP revenues and expenses, and the January and February 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 2024 revenue requirement, as allocated to South Dakota, is \$395,879. This compares to the estimated 2024 revenue requirement in Attachments B and E in Docket EL24-007 of \$238,289. Primary drivers for this change were lower than projected Rate 45 Customer credits, lower than projected MISO credits, higher than projected SPP charges, and lower than projected MISO charges which caused the actual facility sharing, Rate 45 Customer, MISO, and SPP credits to be less than the actual MISO and SPP charges.

Attachment E to MDU's filing details the calculation of the net over-recovered balance from 2024, including carrying charges calculated at the Company's last approved overall rate of return<sup>1</sup>. The resulting 2024 cumulative over-recovered balance is \$18,762.

The Company also includes a true-up of the 2023 Schedule 26A Return Credit and Other O&M Credit as actual 2023 amounts were not known at the time of filing EL24-007. The details regarding this true-up are found in MDU's revised Attachment D. When reviewing the workpapers for this Attachment, Staff discovered the incorrect ROE was used for the 2023 true-up. MDU revised the workpapers and refiled the affected pages of the attachments. This revision resulted in a \$88 true-up and is combined with the over-recovered balance from 2024 and results in the total over-recovered balance of \$18,850, as shown on revised Attachment A.

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<sup>1</sup> For January and February 2024, MDU used the overall rate of return determined in EL15-024. Starting March 1, 2024, MDU used the overall rate of return determined in EL23-020.

## **2025 Revenue Requirement**

MDU proposes to credit ratepayers the total projected 2025 net revenue of \$153,697. 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 \$473,273 reduction in the 2025 projected revenue requirement and a \$145,561 increase in the over-recovery, for a total of \$618,834 returned to ratepayers. MDU estimates this alone saves the typical residential customer using 900 kWh approximately \$4.10 per month or \$49.20 per year.

In addition to the projected 2025 net revenue credit, the Company also includes the calculation of the projected 2025 Schedule 26A Return and Other O&M Credits, totaling \$1,109, as detailed on Attachment D. These credits reflect the intent of the "refined split method" used for Xcel and Otter Tail in a manner 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, EL23-020<sup>2</sup>. 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.

## **2025 TCRR Rate**

When the projected 2025 net revenue credit of \$153,697 and projected 2025 return credits of \$1,109 are combined with the total 2024 net over-recovery of \$18,850, the total revenue credit to be returned to customers is \$173,656. When divided by the projected annual usage of 136,300,000 kWh, this results in a rate of negative \$0.00127 per kWh. MDU proposes this rate be effective May 1, 2025. The calculations supporting this rate are found on the Company's Revised Attachment A.

Compared to the rate currently in effect, the proposed rate results in an increase of \$0.00089 per kWh. A typical residential customer using 900 kWh per month will see an increase of \$0.80 per month, or \$9.60 per year. When combined with the Infrastructure Rider rate decrease from current rates, also effective May 1, 2025, this results in a net decrease of \$0.40 per month, or \$4.80 annually, for the typical residential customer using 900 kWh per month.

## **RECOMMENDATION**

Staff believes the Company's filing is consistent with the settlement approved in Docket EL15-024 And EL23-020 and consistent with prior TCRR filings. Staff recommends the Commission approve the revised TCRR rate of negative \$0.00127 per kWh, with an effective date of May 1, 2025.

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<sup>2</sup> Starting March 1, 2024, MDU used the overall rate of return determined in EL23-020.