STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: ERIC PAULSON, LOGAN SCHAEFBAUER, AND JENNIE FUERST

RE: EL25-007 - 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 3, 2025

BACKGROUND

On February 28, 2025, 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 and continued in the last rate case, EL23-020.

In EL24-008 MDU did not propose to recover any new projects and in conjunction with the rate case docket EL23-020, MDU moved the projects previously recovered in the IRR to base rate recovery, effective on the March 1, 2024.

Also, MDU is proposing to recover costs associated with two new projects in this docket. The proposed revenue requirement, including an under-recovery for 2024 costs and carrying charges, is $354,049 which results in a rate of $0.00260 per kWh. The proposed rate is a decrease of $0.00134 per kWh from the current IRR rate. MDU proposes the rate be effective May 1, 2025.

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.

Wishek Rebuild

This project will rebuild the Wishek Transmission Substation due to its age and condition and reroute eight transmission lines approximately 0.5 miles in length that will be going into the new substation. The new substation is currently under construction and is located close to the existing substation.

Cedar Hills SCADA Controls

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 Montana-Dakota to have a broader control of the towers, again increasing safety while also improving availability by limiting reliance on outside vendors.

Regulatory Asset Recovery

In dockets previous dockets, 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 actual regulatory balances of the projects through February 2024 in Attachment E.

Effective March 1, 2024 with the 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 three years. MDU provided additional details of these projected revenue requirements in Attachment B and actual revenue requirements in Attachment C.

Thunder Spirit Wind Performance Penalty

As noted in EL24-008, MDU learned that the turbine manufacture Nordex will be paying MDU a penalty payment of $78,306 for not meeting its contractual 97 percent availability guarantee. This amount is included in this IRR docket on Attachment D to pass on the revenue to customers.

REVENUE REQUIREMENT AND RATE

MDU filed revisions to certain impacted pages on the Attachments of the filing to correct for two errors found in the review of the filing. An update to the revenue requirement has been made to reflect an updated depreciation rate for the Cedar Hills SCADA controls project in Exhibit B and to include the 2024 Commission Expenses in Exhibit C.

With these revisions, the revised proposed revenue requirement, including an under-recovery for 2024 costs and carrying charges, is $356,083 which results in a rate of $0.00261 per kWh. The proposed rate is a decrease of $0.00133 per kWh from the current IRR rate.

Actual 2024 Revenue Requirement and Over/Under Recovery

The rate approved in Docket EL24-008 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 Infrastructure Rider rates, comparing actual recoveries to actual costs.

Attachment C of MDU's filing as revised, provides the calculation of the actual 2024 South Dakota revenue requirement, which totals $480,802. This compares to the projected 2024 revenue requirement on Attachment B and Attachment C page 2 from Docket EL24-008 of $478,356. This difference is largely attributable to a slightly higher January 2024 O&M and depreciation.

Attachment D of MDU's revised filing compares the January 2024 through April 2025 revenue requirement of $611,879 with the actual and estimated revenue recovered from ratepayers those months of $822,076. The revenue collected includes the penalty payment in March of 2024. Given the year-beginning under-recovered balance of $162,980, the cumulative balance is an over-recovered balance of $47,217. The 2024 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[1]. The resulting total cumulative over-recovered balance is $42,894.

Infrastructure Rider Rate

The projected 2025 Infrastructure Rider revenue requirement included in MDU's revised filing is $398,977. This combined with the over-recovered balance of $42,894, results in a total revenue requirement of $356,083.

MDU's revised filing proposes a rate of $0.00261 per kWh based on the proposed revenue requirement and projected kWh of 136,300,000. MDU proposes this rate be effective May 1, 2025. The calculations supporting this rate are found on the Company's Attachment A.

Compared to the rate approved last year in docket EL24-008, the proposed rate results in a decrease of $0.00133 per kWh. A typical residential customer using 900 kWh per month will see a decrease of $1.20 per month, or $14.40 per year. When combined with the Transmission Cost Recovery Rider rate increase 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

[1] 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.

Staff believes the Company's filing is consistent with the settlement approved in Docket EL15-024 and EL23-020 and is consistent with prior Infrastructure Rider filings. Staff recommends the Commission approve the revised Infrastructure Rider rate of $0.00261 per kWh, with an effective date of May 1, 2025.