## STAFF MEMORANDUM

**TO:** COMMISSIONERS AND ADVISORS

**FROM:** BRITTANY MEHLHAFF

**RE:** EL26-013 - IN MATTER OF THE APPLICATION OF MONTANA-DAKOTA UTILITIES CO., A SUBSIDIARY OF MDU RESOURCES GROUP, INC., FOR APPROVAL OF DEFERRED ACCOUNTING TREATMENT FOR RETIREMENT OF THE GLEN ULLIN STATION 6

**DATE:** AUGUST 6, 2026

## BACKGROUND

On May 12, 2026, 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 of deferred accounting treatment related to the retirement of the Glen Ullin Station 6 (GUS6) generating station. In its filing, MDU requests authority for deferred accounting associated with accelerated depreciation and excess accumulated deferred income taxes (EADIT) resulting from the retirement of GUS6.

GUS6 was a waste heat electric generating station located near Glen Ullin, North Dakota, with a nameplate capacity of 7.5 MW that began commercial operation in 2009. GUS6 utilizes the waste heat generated from a natural gas compressor which is owned and operated by TC Energy (TCE). When the facility was placed in-service in 2009, it had an original cost of $15.0 million with a useful life of 25 years. TCE informed MDU in January 2026 that beginning May 1, 2026, TCE would begin utilizing new compressors and cease continuous operation of the compressor connected to GUS6. At this time, the existing compressor will serve as a backup for the new compressors and operating hours will be limited to 500 hours per year. As a result of TCE's decision, MDU evaluated three future operating scenarios for GUS6, and determined that retirement on June 1, 2026 was the most cost-effective and operationally sound option.

Since MDU has decided to retire GUS6, it must accelerate depreciation to fully depreciate the asset upon early retirement for financial reporting purposes. MDU's filing states South Dakota's share of the net plant balance as of June 1, 2026 is $181,872. After recognition of all remaining tax depreciation and any related excess accumulated deferred income taxes, the Company states the total deferral allocated to South Dakota is approximately $93,000.

## STAFF ANALYSIS

Although Staff's ultimate prudence review will occur at the time MDU requests recovery of the deferred balance in a future rate proceeding, Staff reviewed the three options considered by MDU: Facility Repower, Continued Operation, and Retirement.

Facility Repower – MDU considered two repower options for GUS6. Option A evaluated taking waste heat from the two new TCE compressors, however TCE was unwilling to enter into a long-term agreement for waste heat. Option B considered a self-built generator to provide a new waste heat source for the existing GUS6 equipment. However, the option would have required significant capital investment for a new self-built generator and MDU did not perform additional analysis regarding this option due to the extent of 41.6 kV transmission system upgrades that would be required[1]. Thus, facility repower was not feasible under either option considered.

Continued Operation – With TCE's compressor upgrade project reducing the existing compressor to a backup facility operating less than 500 hours per year, the historical nominal capacity factor GUS6 is anticipated to reduce from 62% to less than 5%. MDU's current waste heat contract with TCE expires July 14, 2029, and TCE is unwilling to enter into a new long-term agreement for waste heat. The Company evaluated the revenue requirement impact of continuing operation through June 2029 under the reduced capacity factor and amortizing the deferred balance at that time over seven years[2].

Retirement – The final option MDU considered was retirement of GUS6 as of June 1, 2026. MDU evaluated this option considering a ten-year amortization period of the deferred balance.

Given facility repower was not a valid option, MDU compared the continued operation through June 2029 option with the retirement as of June 1, 2026 option. Attachment A to the Company's application provides a summary of the estimated revenue requirements over 10 years associated with the two options. MDU's analysis shows retirement of GUS6 to be the most cost-effective option.

MDU's originally filed Attachment A estimates the total revenue requirement over the 10-year period assuming continued operations through June 2029 would be approximately $6.7 million[3]. MDU's analysis considered the revenue requirement required to continue operations through June 2029. This revenue requirement includes recognition of reduced fuel costs, reduced renewable energy credits, and reduced MISO revenues associated with the reduced capacity factor. The remaining net book value and EADIT as of June 2029 were amortized over 7 years.

Attachment A estimates the total revenue requirement over the 10-year period assuming retirement on June 1, 2026, would be approximately $4.5 million[4]. MDU's analysis amortizes the remaining net book value, EADIT, and ADIT as of June 1, 2026, over 10 years and includes the estimated cost of replacement energy.

Comparing the estimated revenue requirements for the retirement option and continued operations option, MDU determined the retirement option to be the most cost-effective. Staff notes the calculations shown in Attachment A are at the total Company level, which is appropriate for purposes of

[1] MDU Response to Staff DR 1-3.
[2] MDU evaluated this option using a 7-year amortization period to align with the 10-year amortization period considered for the retirement option.
[3] Total Company amount
[4] Total Company amount

this analysis given it is a system resource. MDU's application states the South Dakota share of the GUS6 plant balance as of June 1, 2026 is approximately $182,000 and after recognition of all remaining tax depreciation and any related EADIT, the total deferred balance allocated to South Dakota will be approximately $93,000.

On August 5, 2026, the Company filed an updated Attachment A. This update corrects the EADIT balances to eliminate a double-count of ADIT. The update also reflects an updated net book value for the retirement option, reflecting one additional month of depreciation for the month of June 2026. The result of the Company's update increases the revenue requirement impacts for both options considered, but does not change MDU's conclusion that retirement is the most cost-effective option. The updated Attachment A shows the estimated revenue requirement over the 10-year period for the continued operations option is approximately $7.7 million and approximately $5.7 million for the June retirement option. Based on the update, the South Dakota share of the GUS6 plant balance is approximately $180,000 and after recognition of all remaining tax depreciation and related EADIT, the total deferred balance allocated to South Dakota is approximately $123,000.

Staff's ultimate prudence evaluation and determination of an appropriate amortization period will occur when MDU requests recovery of the deferred balance in a future rate proceeding. However, based on the analysis reviewed at this time, Staff believes it is reasonable for the Commission to allow MDU to use deferred accounting for the accelerated depreciation and EADIT associated with the retirement of GUS6 generating station. The situation necessitating MDU's decision to retire GUS6 appears to have been out of the Company's control, as the decision to no longer continuously operate the compressor was a decision made by TCE. The Company considered valid options and chose the option that MDU believes was most cost-effective for its customers based on the analysis performed. Consistent with prior Commission decisions approving deferred accounting requests, Staff supports the Company's request to use deferred accounting in this instance as well, subject to certain conditions as described below.

## RECOMMENDATION

Staff recommends the Commission enter an order authorizing MDU to use deferred accounting for the accelerated depreciation and excess accumulated deferred income taxes (EADIT) resulting from the retirement of the Glen Ullin Station 6 (GUS6) generation station, subject to the following conditions:

1) That the deferral/amortization accounting method and the resulting creation of a regulatory asset (the deferred balance) shall not preclude Commission review of these amounts for prudence, reasonableness, and possible allowance or disallowance in any determination of rates, including both rate filings by the Company and rate reviews initiated by the Commission;
2) That this allowance of a deferral/amortization accounting method and the resulting creation of a regulatory asset, after the related costs have been incurred, is not to be interpreted as allowing future post expenditure deferrals; and

3) That the Commission's decision in this case is based on the facts of this case and any future allowance of the deferral/amortization accounting method and the resulting creation of a regulatory asset must be approved by the Commission.