STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: ERIC PAULSON

RE: EL26-005 - 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: 4/16/26

BACKGROUND

On February 27, 2026, 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 2025 actual costs and recoveries and projected 2026 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.

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.

Most recently, in Docket EL25-006, 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 $0.00114 per kWh, effective May 1, 2026. This represents an increase of $0.00241 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 2025 actual revenue requirement and true-up, the forecasted 2026 revenue requirement, and rate calculation.

MDU filed a copy of the bill insert that will be included with customers' bills if the Commission approves the proposed (TCRR) showing six usage amounts used to calculate estimated bill impacts.

Actual 2025 Revenue Requirement and Over/Under Recovery

The rate approved in Docket EL25-006 was based on the true-up of prior period costs and revenues and the projected 2025 revenue requirement. When new projects are included, 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 2025 revenue requirements, including Basin Facility Agreement and Rate 45 revenue, and MISO and SPP revenues and expenses. The actual 2025 revenue requirement, as allocated to South Dakota, is negative $60,101. This compares to the estimated 2025 revenue requirement in Attachments B in Docket EL25-006 of negative $153,697. Primary drivers for this change were lower than projected Rate 45 Customer credits, higher than projected MISO credits, lower than projected MISO charges, higher than projected SPP charges, and lower than projected SPP credits. This caused the actual facility sharing, Rate 45 Customer, MISO, and SPP credits to still be more than the actual MISO and SPP charges but less than projected.

The reason for the significant increase in the SPP charges, in response to DR1-2, MDU noted that Schedule 9 network integration transmission service charges were approximately $2.3 million higher than projected. This increase reflects new transmission facilities placed into service within the SPP footprint, including facilities located in the UMZ zone. As a load serving entity within SPP, Montana-Dakota is allocated its share of these zonal transmission investments, resulting in higher Schedule 9 charges. Also, Schedule 11 charges were approximately $0.5 million higher than projected. These increases are primarily due to additional regionally allocated transmission costs, including transmission upgrades associated with generator interconnections and broader system reliability improvements, with costs allocated across all SPP zones.

Attachment E to MDU's filing details the calculation of the net over-recovered balance from 2025, including carrying charges calculated at the Company's last approved overall rate of return[1]. The resulting 2025 cumulative under-recovered balance is $149,513.

The Company also includes a true-up of the 2024 Schedule 26A Return Credit and Other O&M Credit as actual 2024 amounts were not known at the time of filing EL25-006. The details regarding this true-up

[1] Starting March 1, 2024, MDU used the overall rate of return determined in EL23-020.

are found in MDU's Attachment D. This $244 true-up is combined with the under-recovered balance from 2025 and results in the total over-recovered balance of $149,269, as shown on Attachment A.

<u>2026 Revenue Requirement</u>

MDU proposes collect from ratepayers a total projected 2026 net revenue of $6,045. This low revenue requirement 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 $487,694 reduction in the 2026 projected revenue requirement and a $38,209 decrease in the under-recovery, for a total of $449,485 returned to ratepayers. MDU estimates this alone saves the typical residential customer using 900 kWh approximately $2.99 per month or $35.88 per year.

In addition to the projected 2026 net revenue credit, the Company also includes the calculation of the projected 2026 Schedule 26A Return and Other O&M Credits, totaling $1,037, 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[2]. 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.

<u>2026 TCRR Rate</u>

When the projected 2026 net revenue requirement of $6,045 and projected 2025 return credits of $1,037 are combined with the total 2025 net under-recovery of $149,269, the total revenue requirement to be collected from customers is $154,277. When divided by the projected annual usage of 135,362,000 kWh, this results in a rate of $0.00114 per kWh. MDU proposes this rate be effective May 1, 2026. 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 $0.00241 per kWh. A typical residential customer using 900 kWh per month will see an increase of $2.17 per month, or $26.04 per year.

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 $0.00114 per kWh, with an effective date of May 1, 2026.

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[2] Starting March 1, 2024, MDU used the overall rate of return determined in EL23-020.