

**STATE OF SOUTH DAKOTA
PUBLIC SERVICE COMMISSION**

In the Matter of the Application of MONTANA-)
DAKOTA UTILITIES CO. for Authority for) Docket No. EL26-____
Deferred Accounting)

I. Summary of Application

Montana-Dakota Utilities Co. (Montana-Dakota, Company or Applicant), pursuant to S.D.C.L § 49-34A-7, hereby submits this Application for Authority for Deferred Accounting associated with accelerated depreciation and excess accumulated deferred income taxes (EADIT) resulting from the retirement of the Glen Ullin Station 6 (GUS6). GUS6 is a waste heat electric generating station located near Glen Ullin, North Dakota. GUS6 has a nameplate capacity of 7.5 MW and began commercial operations in 2009.

II. Description of Applicant

Montana-Dakota is a Delaware corporation duly authorized to do business in the State of South Dakota as a foreign corporation and doing business in the State of South Dakota as a public utility subject to the jurisdiction of and regulation by the South Dakota Public Service Commission (Commission). Montana-Dakota provides electric service to approximately 147,000 customers with approximately 8,400 of those customers located in South Dakota.

III. Authority for the Relief Requested

The Commission may authorize deferred accounting and amortization of unusual and non-recurring expenses that were not contemplated at the time current rates were

established. By doing so, the Commission allows a utility to designate unusual and infrequent expenses as regulatory assets that will be amortized over future accounting periods. The Commission has allowed deferred accounting when the amounts are sufficiently large that they could accelerate the timing of a rate case. As explained below, this request involves expenditures of that nature, specifically the need to accelerate depreciation in order to fully depreciate the GUS6 upon retirement.

IV. Description of the Generating Asset

GUS6 is a waste heat energy generation facility located near Glen Ullin, ND that utilizes the waste heat generated from a natural gas compressor which is owned and operated by TC Energy (TCE). The facility was placed in service in July of 2009 with a nameplate of 7.5 MW, an original cost of approximately \$15.0 million, and an estimated useful life of 25 years. The generating capacity of GUS6 is currently at approximately 50% due to a feed pump that failed in 2024. On January 5, 2026 Montana-Dakota was informed that beginning May 1, 2026, TCE would begin utilizing new compressors and cease continuous operation of the compressor connected to GUS6. The existing compressor will then serve as a backup for the new compressors and operating hours will be limited to 500 hours per year.

V. Retirement of the Generating Asset

As a result of TCE's decision, Montana-Dakota evaluated three future operating scenarios for GUS6, including continued operation, facility repower, and unit retirement to determine the least cost option. Due to a projected reduction in capacity factor and the

infeasibility of repowering the facility, continued operation is no longer economically viable. Based on the Company's analysis, retirement on June 1, 2026 is the most cost-effective and operationally sound option. Additional details on each option analyzed by Montana-Dakota are provided below.

- Facility Repower - Because the existing TCE compressor will no longer provide a reliable waste heat stream to GUS6, a repower of GUS6 was investigated. Two repower options were considered. Option A evaluated taking waste heat from the two new TCE compressors. Option B evaluated a self-built generator to provide a new waste heat source for the existing GUS6 equipment. After investigating each option, it was determined that neither was likely feasible. For Option A, TCE is unwilling to enter into a long-term agreement for waste heat. Option B would require significant capital investment for a new self-built generator and would require additional 41.6kV transmission system upgrades.
- Continued Operation - Continued Operation of GUS6 after TCE's compressor upgrade project is commercially operable is anticipated to reduce the historical nominal capacity factor of GUS6 from 62% to less than 5%. On July 14, 2029, the waste heat contract with TCE expires, and TCE has stated that they are unwilling to enter into a long-term agreement for waste heat, reducing the viability of the continued operation option. The total Company revenue requirement for this option, which includes continued operation through June 2029 and then amortizing the deferred accounting over seven years, totals \$6.7 million. The Company chose a seven-year

amortization period to most effectively compare this option with retirement on June 1, 2026 as described below.

- Retirement on June 1, 2026 - This option would consist of Montana-Dakota retiring the facility on June 1, 2026, and terminating the operational and maintenance agreement. To identify the least-cost option, the Company utilized a ten-year amortization of the deferred accelerated depreciation and EDIT.

Attachment A, page 1 provides a summary comparison of the revenue requirement associated with continued operation and retirement on June 1, 2026. From this comparison, it's clear that the retiring GUS6 is the most cost-effective option. Attachment A, page 2 includes additional details supporting the revenue requirement calculation and operating costs.

VI. Accounting Requirements

Montana-Dakota is subject to Generally Accepted Accounting Principles (GAAP) that provide accounting guidance applicable to the retirement of assets prior to the expected retirement date. Specifically, ASC 360-10-35 requires the Company to accelerate depreciation in order to fully depreciate the asset to the expected early retirement date for financial reporting purposes.

South Dakota's share of the GUS6 plant balances as of June 1, 2026, are as follows:

	<u>GUS6</u>
Plant In Service	\$662,371
Accumulated Reserve	<u>480,499</u>
Net Plant	\$181,872

VII. Accelerated Depreciation

Montana-Dakota's electric depreciation study underlying the currently authorized depreciation rates was submitted in the Company's electric rate case filed on August 15, 2023 in Docket No. EL23-020 and was based on electric utility plant balances as of December 31, 2022. In that depreciation study, GUS6 was assumed to retire in 2034. The accelerated depreciation necessary to depreciate South Dakota's share of the retired generating unit by June 2026 for GUS6 is approximately \$182,000.

The retirement of the generating unit will result in acceleration and recognition of all remaining tax depreciation and any related excess accumulated deferred income taxes, resulting from the change in the federal income tax rate in the Tax Cuts and Jobs Act of 2017. The Company's total deferral allocated to South Dakota would be approximately \$93,000.

VIII. Conclusion

Applicant respectfully requests that the Commission:

1. Enter an Order authorizing deferred accounting for Montana-Dakota's accelerated depreciation and EADIT related to the retirement of the GUS6 generating station.
2. Grant such other relief as the Commission shall deem appropriate.

Dated this 12th day of May 2026.



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