MONTANA-DAKOTA
UTILITIES CO.
A Division of MDU Resources Group, Inc.

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February 1, 2018

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501

Re: In the Matter of Staff's Request to Investigate the Tax Cuts and Jobs Act on South Dakota Utilities

Docket No. GE17-003

Montana-Dakota Utilities Co., a Division of MDU Resources Group Inc. (Montana-Dakota), herewith provides its initial comments pursuant to the South Dakota Public Utilities Commission's Order Requiring Comments; Order Requiring Rates in Effect January 1, 2018, Are Subject to Refund; Order Granting Intervention issued on December 29, 2017 in the above referenced Docket (December 29 Order).

Montana-Dakota appreciates the opportunity to provide a summary of its review of the 2017 Tax Cuts and Jobs Act signed into law on December 22, 2017 (TCJA) and findings thus far. Montana-Dakota will also address next steps proposed to reflect the effects of the TCJA on its natural gas and electric rates currently authorized in South Dakota.

A summary of an analysis of the 2017 Federal Tax Act impacts is provided in Exhibit A. As noted, Montana-Dakota has not yet completed its analysis and determination of the complete quantitative impact of the TCJA on its South Dakota gas and electric operations. Montana-Dakota is working to complete this analysis based on its actual 2017 jurisdictional operating results adjusted to reflect certain pro forma adjustments, in accordance with recent decisions in Docket Nos. NG15-005 and EL15-024, for calendar year 2018 including adjustments associated with the TCJA. Year-end jurisdictional results for calendar year 2017 have just recently been made available and the process of determining the jurisdictional plant related Excess Deferred Income Taxes is currently underway. At this time, Montana-Dakota is targeting completion of its analysis for its electric and natural gas operations in South Dakota by March 31, 2018 in order to provide quantitative information for further discussion with Commission Staff as ordered in the Commission's December 29 Order.

Montana-Dakota will also reflect the effects of the TCJA in its Infrastructure Rider Rate 56 and Transmission Cost Recovery Rider Rate 59 due to be filed by March 1. Montana-Dakota is working with MISO and the MISO Transmission Owners to determine how and when the effects of the TCJA will be reflected in MISO Transmission rates. At this time, it is expected that MISO will implement new rates effective March 1, 2018 and ultimately rebill back to January 1, 2018. The timing of the MISO rate change may require an update to the Transmission Cost Recovery Rider if new rates are not available in time to include with Montana-Dakota's March 1 filing.

Montana-Dakota appreciates the opportunity to work with Commission Staff in developing a proposed procedure to bring to the Commission for reflecting the impacts of the TCJA in its rates with any changes to be effective as of January 1, 2018.

If you have any questions regarding these comments, please contact me, at (701) 222-7856 or tamie.aberle@mdu.com.

Sincerely,

Tamie A. Aberle
Director of Regulatory Affairs

Attachments
cc: B. Koenecke

MONTANA-DAKOTA UTILITIES CO.
SOUTH DAKOTA
TAX REFORM (P.L. 115-97)
SUMMARY IMPACT

Exhibit A

Topic	Tax Cuts & Jobs Act	Prior Law	Montana-Dakota Impact	Quantitative Impact	Other Implications
Corporate Tax Rates	Effective January 1, 2018, the corporate federal income tax rate is reduced to 21%	Corporate federal income tax rate 35%	- Regulatory plant related deferred taxes in accounts 281 and 282 are required to be immediately remeasured using the enacted tax rate. A Regulatory Liability representing the difference between the old and new tax rates will be set up. This "excess deferred tax" will be amortized over the life of the underlying plant to comply with Normalization prescribed by the IRS. - Non-plant related deferred taxes in accounts 190 and 283 are likewise remeasured and the difference becomes a Regulatory Liability/Asset to be returned to the rate payers using a straight-line method similar to past filings. Montana-Dakota proposes to use the average outstanding life of these assets calculated to be 10 years. - Non-regulatory deferred taxes, remeasured differences will be adjusted to the 2017 income statement. - Effective January 1, 2018, federal income tax expense will be calculated using 21%.	-Montana -Dakota is currently analyzing the effect of the tax change on the currently effective rates authorized in Docket Nos. NG15-005 and EL15-024, based on 2017 results and pro forma adjustments - Montana- Dakota is expecting to have results available by March 31, 2018.	N/A
Alternative Minimum Tax	Repealed	Method of taxation that runs parallel to the "regular" corporate income tax with an intent to create a minimum level of taxation. 20% tax rate on AMT greater than regular income tax.	No impact as regular income tax has historically been higher than AMT and zero AMT credit carryovers	N/A	N/A
Local Lobbying Expenses	Eliminates the deduction for lobbying expense regarding legislation before local government bodies.	As an exception to the general disallowance of a deduction for lobbying expenses, for expenses incurred for lobbying on legislation being considered by local government bodies, with Indian tribal government entities being treated as local government bodies.	No impact	N/A	N/A
Contributions to Aid in Construction (CIAC)	Removes limited exceptions and specifically states that CIAC as a customer or potential customer and any contributions by any governmental entity or civic group are not "contributions to capital" therefore taxable.	Certain CIACs of a regulated public utility are tax-free contribution to the capital of a corporation.	Effective for contributions made after 12/22/17, except for contributions made by a governmental entity pursuant to a master development plan that has been approved prior to enactment.	TBD	N/A
Temporary 100% Expensing for Certain Business Assets	100% for property placed in service after 9/27/17 through 12/31/2023. 80% calendar year 2024 60% calendar year 2025 40% calendar year 2026 20% calendar year 2027	50% expensing on qualified personal property, phase out to 40% in 2018 and 30% in 2019, zero thereafter.	- Qualified property excludes public utility property acquired and placed in service after 9/27/17.	TBD	TBD
Depreciation Limitation for Luxury Automobiles	Increased depreciation limit that apply to listed property for which bonus depreciation is not claimed to $10,00, $16,000, $9,600, and $5,760 for year four and later	Limitation $3,160, $5,100, $3,050 and $1,875 for the fourth and later years.	Nominal impact - TBD	N/A	N/A
Domestic Production Activities Deduction (Section 199)	Repealed	Taxpayers may claim a deduction equal to 9% of the lesser of the taxpayer's qualified production activities income	There is no impact to Montana-Dakota as the Company has not realized a Section 199 benefit in at least the past five years and prior benefits were insignificant.	N/A	N/A

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Topic	Tax Cuts & Jobs Act	Prior Law	Montana-Dakota Impact	Quantitative Impact	Other Implications
Limitation on Business Interest Expense Deduction	Limits the deduction for net interest expenses to 30% of adjusted taxable income using taxable EBITDA and EBIT after four years.	Business interest is generally allowed as a deduction in the tax year in which the interest is paid or accrued, subject to a number of limitations.	N/A - The interest limitation does not apply to certain regulated public utilities or to certain electric cooperatives.	N/A	Future guidance is expected on the mechanics and specific application of the new laws, especially around allocations. There could be an impact but none anticipated with what appears to be reasonable application.
Net Operating Loss Deduction	NOL deduction is limited to 80% of taxable income for losses arising in tax years after 12/31/2017. Carrybacks are eliminated and carry forward indefinitely.	Net operating tax losses may be carried back two years and carried forward 20 years	Montana-Dakota does not have net operating loss carryovers as of December 31, 2017.	N/A	N/A
Like-Kind Exchanges	Limits the nonrecognition of gain for like-kind exchanges to real property that is not held primarily for sale. The Act applies to exchanges completed after Dec. 31, 2017.	No gain or loss is recognized to the extent that property held for productive use in the taxpayer's trade or business, or property held for investment purposes, is exchanged for property of a like-kind that also is held for productive use in a trade or business or for investment.	No impact as Montana-Dakota did not participate in like-kind exchanges of personal property in 2017 and new rules are consistent with company policies.	N/A	N/A
Entertainment Expenses	- No deduction allowed for entertainment, amusement, or recreation, membership dues for a club organized for business, pleasure, recreation or other social purposes or a facility used in connection with these actives. Even if directly related to the active conduct of the taxpayer's trade or business. - 50% limit on employer expenses associated with providing food and beverages to employees through an eating facility meeting de minims fringe requirements.	Employers can only deduct expenses associated with entertainment, amusement, or recreational activities if they establish that the activity was directly related to the active conduct of the employer's trade or business or a facility used in connection with such activity. If an employer is entitled to deduct entertainment expenses, there generally is a 50%	Impact likely to be immaterial as the company's policies are already consistent with the new rules.	TBD	N/A
Other Fringe Benefits	No deduction allowed for qualified transportation fringe to employees except for ensuring employee safety.	An employer deduction is allowed for qualified transportation fringe to employees, such as bicycling or commuter expenses.	Impact likely to be immaterial as there are no company policies inconsistent with the new rules.	N/A	N/A
Self-Created Property, no Capital Asset	Treats gain or loss from the disposition of a self-created patent, invention, model or design, or secret formula or process as ordinary in character.	A self-created patent, invention, model or design, or secret formula or process is treated as a capital asset.	N/A	N/A	N/A
R&D Expenditures	Must capitalize and amortize over five years.	Elect to deduct currently or elect to amortize over 60 months or more	For 2017, zero R&D expenditures are known at this time, however the Company is currently researching certain engineering activities for qualifying expenses.	N/A	N/A
Sexual Harassment or Sexual Abuse	Disallows a deduction for any settlement, payout or attorney fees relate to sexual harassment or sexual abuse if payments are subject to a nondisclosure agreement. Effective for amount paid or incurred after 12/22/17.	Generally deducted as ordinary and necessary expenses in carrying on a trade or business.	No change.	N/A	N/A

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Topic	Tax Cuts & Jobs Act	Prior Law	Montana-Dakota Impact	Quantitative Impact	Other Implications
Employer Credit for Paid Family and Medical Leave	Employers that allow all qualifying full-time employees at least two weeks annual paid family and medical leave and allow part-time employees a commensurate amount of leave on a pro rata basis) to claim a business credit for 12.5% of the wages paid to qualifying employees.	N/A	Change not anticipated at this time.	N/A	Based on current policies, do not qualify for credit
Deduction for Fines and Penalties	- Denies a deduction for amounts paid in relation to the violation of a law or investigation into the potential violation of a law is a government or similar entity is a complainant or investigator with respect to the violation. - Exception for restitution identified in a court order or settlement agreement. - Restitution for failure to pay IRS taxes is deductible only to the extent it would have been allowable if it had been timely paid.	No deduction is allowed for fines or penalties paid to a government for the violation of any law.	Change not anticipated at this time.	N/A	N/A
Executive compensation for "covered employee"	Repeals performance based compensation exceptions to the $1 M annual limitation, with certain transition relief provisions.	The deduction limitation did not apply to certain qualifying performance based payments.	The impact of this change is being analyzed and determining the transition relief provisions.	TBD	TBD