

MEMORANDUM

To: Commissioners, Advisory Staff, and MDU

Fr: Christopher Marohl, Advocacy Staff *CM*

Da: April 17, 2012

Re: MDU Transmission Facility Cost Recovery Case No. PU-11-672 & PU-11-681

There was some confusion in regards to my April 11, 2012 memo at the informal hearing held on the same day. In that memo I indicated that MDU's filing most closely resembled what became known in the Otter Tail Power case as the "all-in method". Then in the informal hearing I said MDU's filing most closely resembled a "schedule 26 only method". Actually, MDU's application is not exactly like either method.

If we disregard the new Heskett substation that was designated as a Baseline Reliability Project (BRP) and the potential MDU investment in the Ellendale to Big Stone Multi-Value Project (MVP) then this application is exactly like a "schedule 26 only method". However, the Heskett substation was placed into MDU's rate base in their last rate case (PU-10-124) with plans to credit all Schedule 26 revenues to customers through the proposed Transmission Rider, therefore resembling an "all-in" type design.

With the "all-in method" there has been concern about retail responsibility in rate base and traditional ratemaking principles. Since the Heskett substation is a BRP fairly well surrounded by MDU's service territory MDU ratepayer's retail responsibility of the project compared to its investment is fairly high. MDU would also need a rate adjustment filing prior to including any expenses or revenues from the proposed Ellendale to Big Stone MVP line into the proposed Transmission Rider. These two factors should relieve any concerns about an "all-in method" as it relates to MDU's application and I again recommend the approval of MDU's application.