



UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

February 23, 2018

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
600 East Boulevard Ave.
Bismarck, ND 58505-0480

Re: Revision to the Annual Update of the Generation Resource Recovery Rate 56 to reflect the effects of the Tax Cuts & Jobs Act
Case No. PU-17-469.

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits for Commission approval an original and (7) copies of revisions to the Generation Resource Cost Recovery Rate 56 charges filed on November 27, 2017 in the above referenced docket.

The proposed rates, included herein on Exhibit 1, reflect the projected costs through 2018 related to the Company's investment in the Lewis & Clark RICE units as revised to reflect the effect of the Tax Cuts and Jobs Act of 2017 (TCJA).

The TCJA changed the corporate income tax rate from 35% to 21%, which results in a reduction in the incremental accumulated deferred income tax for 2018 and the 2018 current tax expense. While the TCJA requires re-measurement of the accumulated deferred income tax balance to determine the portion of excess deferred income tax, tax depreciation continues to exceed book depreciation in 2018 for this asset. Therefore, the amortization of the excess will take place in future periods when the book depreciation exceeds tax depreciation.

In support of the revised filing, Montana-Dakota is providing the following Exhibits:

- Exhibit 1 – Generation Resource Cost Adjustment Rate 56 3rd Revised Sheet No. 40 as submitted on November 27, 2017 and 4th Revised Sheet No. 40.1 updated to reflect the revisions to the proposed charges
- Exhibit 2 – Derivation of Proposed Rates.
- Exhibit 3 – Revised Lewis & Clark RICE Units Projected Revenue Requirement for 2018.
- Exhibit 4 – Balancing Account Summary.

The total cost to be recovered through the proposed rates, reflecting the TCJA changes, is \$4,600,125, representing a reduction of \$390,487 from the Company's initial filing. This annual amount to be recovered is comprised of the annual projected revenue requirement for 2018 of \$3,682,825, plus the continued collection of the 2016 under collected balance of \$917,300 for this 12-month period. The Company began amortizing the prior period under collected balance of \$1,834,599 over a twenty-four month period effective with service rendered August 7, 2017, pursuant to the Order in Case No. PU-16-666, the established per unit amounts have not been updated in this filing.

A residential customer using 894 Kwh would see a total decrease of \$0.30 per month from the currently authorized charge under Rate 56 based on the proposed revised rates.

The Generation Resources Recovery Rider (GRRR) rates, as proposed, are shown below, along with the change from the current GRRR rates implemented August 7, 2017:

| | Proposed Rate | Current Rate | Change |
|---|------------------|-----------------|-------------|
| Residential / Small General Rate/Kwh | \$0.00251 | \$0.00284 | (\$0.00033) |
| Large General/KW | \$0.72702 | \$0.82212 | (\$0.09510) |
| Space Heating/KW | \$0.40665 | \$0.44987 | (\$0.04322) |
| Lighting/Kwh | \$0.00097 | \$0.00110 | (\$0.00013) |

Please contact me at 701.222.7856 or tamie.aberle@mdu.com with any questions.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,



Tamie A. Aberle
Director of Regulatory Affairs

Attachments
cc: Karl Liepitz
Garret Senger

Exhibit 1



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4
3rd Revised Sheet No. 40
Canceling 2nd Revised Sheet No. 40

Generation Resource Recovery Rider Rate 56

Page 1 of 2

Applicability:

This rate schedule represents a Generation Resource Recovery Rider (GRRR) and specifies the procedure to be utilized to recover the jurisdictional costs associated with generation resource additions approved by the Commission but not recovered through retail rates. Costs to be recovered may include operations and maintenance expenditures, depreciation, taxes, and a current return on the project costs during construction. Costs being recovered under this tariff are currently not included in the rates established at the time of the Company's last general rate case.

1. Generation Resource Recovery Rider:

- a. The North Dakota jurisdictional GRRR revenue requirement will be allocated to the customer classes based on the Company's Demand Factor No. 2 established in the Company's most recent general rate case. The adjustment applied to the Residential, Small General Service and Lighting Classes will be calculated based on the customer class revenue requirement and the forecasted Kwh for the forecasted period. The adjustment applied to the Large General Service Class will be calculated based on the customer class revenue requirement and the forecasted demand for the forecasted period and expressed as a KW charge. The return component of the revenue requirement calculation will include the authorized return on equity specified in Case No. PU-16-666.
- b. The GRRR is applicable to all retail customers for electric energy sold, except those served under special contracts, and are allocated amongst the rate classes based on the applicable demand factor.
- c. The GRRR will be adjusted annually (or other period authorized by the Commission) to reflect the Company's most recent projected capital costs and related expenses for projects determined to be recoverable under this schedule.
- d. A true-up will reflect any over or under collection of revenue under the GRRR based on actual expenditures from the preceding twelve month recovery period plus carrying charges or credits accrued at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.

Date Filed: November 27, 2017

Effective Date:

Issued By: Tamie A. Aberle
Director – Regulatory Affairs

Case No.:



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street

Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4

4th Revised Sheet No. 40.1

Canceling 3rd Revised Sheet No. 40.1

Generation Resource Recovery Rider Rate 56

Page 2 of 2

2. Generation Resource Recovery Rider:

| | |
|-------------------------------|----------------|
| Residential & Small General | 0.251¢ per Kwh |
| Large General | 72.702¢ per KW |
| General Space Heating Rate 32 | 40.665¢ per KW |
| Lighting | 0.097¢ per Kwh |

Date Filed: February 23, 2018

Effective Date:

Issued By: Tamie A. Aberle
Director – Regulatory Affairs

Case No.:

Tariffs Reflecting Proposed Changes



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4

2nd Revised Sheet No. 40

Canceling 1st Revised Sheet No. 40

Generation Resource Recovery Rider Rate 56

Page 1 of 2

Applicability:

This rate schedule represents a Generation Resource Recovery Rider (GRRR) and specifies the procedure to be utilized to recover the jurisdictional costs associated with generation resource additions approved by the Commission but not recovered through retail rates. Costs to be recovered may include operations and maintenance expenditures, depreciation, taxes, and a current return on the project costs during construction. Costs being recovered under this tariff are currently not included in the rates established at the time of the Company's last general rate case.

1. Generation Resource Recovery Rider:

- a. The North Dakota jurisdictional GRRR revenue requirement will be allocated to the customer classes based on the Company's Demand Factor No. 2 established in the Company's most recent general rate case. The adjustment applied to the Residential, ~~and Small General Service~~ and Lighting Classes will be calculated based on the customer class revenue requirement and the forecasted Kwh for the forecasted period. The adjustment applied to the Large General Service Class will be calculated based on the customer class revenue requirement and the forecasted demand for the forecasted period and expressed as a KW charge. The return component of the revenue requirement calculation will include the authorized return on equity specified in Case No. PU-16-666.
- b. The GRRR is applicable to all retail customers for electric energy sold, except those served under ~~lighting schedules and special contracts~~, and are allocated amongst the rate classes based on the applicable demand factor.
- c. The GRRR will be adjusted annually (or other period authorized by the Commission) to reflect the Company's most recent projected capital costs and related expenses for projects determined to be recoverable under this schedule.
- d. A true-up will reflect any over or under collection of revenue under the GRRR based on actual expenditures from the preceding twelve month recovery period plus carrying charges or credits accrued at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.

Date Filed: June 26, 2017

Effective Date: Service rendered on and after August 7, 2017

Issued By: Tamie A. Aberle
Director – Regulatory Affairs

Case No.: PU-16-666



Montana-Dakota Utilities Co.

A Division of MDU Resources Group, Inc.

400 N 4th Street
Bismarck, ND 58501

State of North Dakota Electric Rate Schedule

NDPSC Volume 4

3rd Revised Sheet No. 40.1

Canceling 2nd Revised Sheet No. 40.1

Generation Resource Recovery Rider Rate 56

Page 2 of 2

2. Generation Resource Recovery Rider:

| | |
|-------------------------------|----------------------|
| Residential & Small General | 0.2840.251¢ per Kwh |
| Large General | 82.21272.702¢ per KW |
| General Space Heating Rate 32 | 44.98740.665¢ per KW |
| Lighting | 0.1100.097¢ per Kwh |

Date Filed: June 26, 2017

Effective Date: Service rendered on and after August 7, 2017

Issued By: Tamie A. Aberle
Director – Regulatory Affairs

Case No.: PU-16-666

**Montana-Dakota Utilities Co.
Electric Utility - North Dakota
Generation Resource Recovery Rider
Proposed Generation Rider Rates**

| | Total | Residential & Small General | Large General | Space Heating Rate 32 | Lighting |
|-------------------------------|-------------|--------------------------------|------------------|--------------------------|-------------|
| Revenue Requirement 1/ 2/ | \$3,682,825 | \$1,787,055 | \$1,801,455 | \$73,014 | \$21,301 |
| Projected Kwh 4/ | | 888,808,000 | | | 27,283,000 |
| Projected KW 4/ | | | 3,067,460 | 273,550 | |
| Proposed GRRR Rate per unit | | | | | |
| Revenue Requirement per unit | | \$0.00201 | \$0.58728 | \$0.26691 | \$0.00078 |
| Amortization per unit 3/ | | 0.00050 | 0.13974 | 0.13974 | 0.00019 |
| Proposed GRRR Rate per unit | | 0.00251 | 0.72702 | 0.40665 | 0.00097 |
| Current GRRR Rate per unit 5/ | | | | | |
| Revenue Requirement per unit | | \$0.00234 | \$0.68238 | \$0.31013 | \$0.00091 |
| Amortization per unit 3/ | | 0.00050 | 0.13974 | 0.13974 | 0.00019 |
| Current GRRR Rate per unit | | 0.00284 | 0.82212 | 0.44987 | 0.00110 |
| Increase in GRRR Rate | | (\$0.00033) | (\$0.09510) | (\$0.04322) | (\$0.00013) |

1/ Exhibit 3

2/ Demand Allocation Factor 2 (Case No. PU-16-666, Statement M, Schedule M-2):

| | | |
|-----------------------------|--------------------|--|
| Residential & Small General | 48.524051% | (Rates 10, 13, 16, 20, 25, 26, and 40) |
| Large General | 48.915028% | (Rates 30, 31, 38, and 48) |
| Space Heating Rate 32 | 1.982544% | (Rate 32) |
| Lighting | 0.578377% | (Rates 41, 52) |
| | <u>100.000000%</u> | |

3/ Amortization rate per Kwh as authorized in Case No. PU-16-666. Annual Generation Rider balance being amortized is \$917,300.

4/ Projected Kwh and KW sales excluding contracts.

5/ Current GRRR rates effective August 7, 2017.

Montana-Dakota Utilities Co.
Electric Utility - North Dakota
Generation Resource Recovery Rider
Revenue Requirement - Lewis & Clark RICE
Projected 2018

| | Projected | | | | | | | | | | | | End Balance | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------------|--------------------|
| | Jan 2018 | Feb 2018 | Mar 2018 | Apr 2018 | May 2018 | June 2018 | July 2018 | Aug 2018 | Sept 2018 | Oct 2018 | Nov 2018 | Dec 2018 | | |
| Rate Base | | | | | | | | | | | | | | |
| Total Plant Balance | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | \$32,200,401 | |
| Total Accumulated Reserve | \$1,664,847 | \$1,731,931 | \$1,799,015 | \$1,866,099 | \$1,933,183 | \$2,000,267 | \$2,067,351 | \$2,134,435 | \$2,201,519 | \$2,268,603 | \$2,335,687 | \$2,402,771 | \$2,402,771 | |
| Net Plant in Service | \$30,535,554 | \$30,468,470 | \$30,401,386 | \$30,334,302 | \$30,267,218 | \$30,200,134 | \$30,133,050 | \$30,065,966 | \$29,998,882 | \$29,931,798 | \$29,864,714 | \$29,797,630 | \$29,797,630 | |
| Accum Def Income Taxes | \$1,735,800 | \$1,757,996 | \$1,777,951 | \$1,795,737 | \$1,811,280 | \$1,824,654 | \$1,835,788 | \$1,844,681 | \$1,851,405 | \$1,855,888 | \$1,858,202 | \$1,858,273 | | |
| Total Rate Base | \$28,799,754 | \$28,710,474 | \$28,623,435 | \$28,538,565 | \$28,455,938 | \$28,375,480 | \$28,297,262 | \$28,221,285 | \$28,147,477 | \$28,075,910 | \$28,006,512 | \$27,939,357 | \$27,939,357 | |
| Return on Rate Base 1/ | \$174,287 | \$173,746 | \$173,219 | \$172,706 | \$172,206 | \$171,719 | \$171,246 | \$170,786 | \$170,339 | \$169,906 | \$169,486 | \$169,080 | \$2,058,726 | |
| Expenses | | | | | | | | | | | | | | |
| Operating Expenses | | | | | | | | | | | | | Total | |
| Depreciation | 67,084 | 67,084 | 67,084 | 67,084 | 67,084 | 67,084 | 67,084 | 67,084 | 67,084 | 67,084 | 67,084 | 67,084 | 67,084 | 805,008 |
| Property Tax | 30,825 | 30,825 | 30,825 | 30,825 | 30,825 | 30,825 | 30,825 | 30,825 | 30,825 | 30,825 | 30,825 | 30,825 | 30,825 | 369,899 |
| Total Expenses | \$97,909 | \$97,909 | \$97,909 | \$97,909 | \$97,909 | \$97,909 | \$97,909 | \$97,909 | \$97,909 | \$97,909 | \$97,909 | \$97,909 | \$97,908 | \$1,174,907 |
| Income before Taxes (EBIT) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,909) | (\$97,908) | (\$1,174,907) |
| Interest Expense | 56,496 | 56,320 | 56,150 | 55,983 | 55,821 | 55,663 | 55,510 | 55,361 | 55,216 | 55,076 | 54,939 | 54,808 | 54,808 | 667,343 |
| Taxable income | (\$154,405) | (\$154,229) | (\$154,059) | (\$153,892) | (\$153,730) | (\$153,572) | (\$153,419) | (\$153,270) | (\$153,125) | (\$152,985) | (\$152,848) | (\$152,716) | (\$152,716) | (\$1,842,250) |
| Income Taxes 2/ | (\$37,682) | (\$37,639) | (\$37,598) | (\$37,557) | (\$37,518) | (\$37,479) | (\$37,442) | (\$37,405) | (\$37,370) | (\$37,336) | (\$37,302) | (\$37,270) | (\$37,270) | |
| Net Income Taxes | (\$37,682) | (\$37,639) | (\$37,598) | (\$37,557) | (\$37,518) | (\$37,479) | (\$37,442) | (\$37,405) | (\$37,370) | (\$37,336) | (\$37,302) | (\$37,270) | (\$37,270) | (\$449,598) |
| Operating Income | (\$60,227) | (\$60,270) | (\$60,311) | (\$60,352) | (\$60,391) | (\$60,430) | (\$60,467) | (\$60,504) | (\$60,539) | (\$60,573) | (\$60,607) | (\$60,638) | (\$60,638) | (\$725,309) |
| Revenue Requirement | \$310,224 | \$309,565 | \$308,922 | \$308,298 | \$307,688 | \$307,095 | \$306,519 | \$305,959 | \$305,414 | \$304,886 | \$304,376 | \$303,879 | \$303,879 | \$3,682,825 |

1/ Authorized return on equity specified in Case No. PU-16-666:

| | Ratio | Cost | |
|------------------|----------|--------|--------|
| Long Term Debt | 42.673% | 5.245% | 2.238% |
| Short Term Debt | 4.840% | 2.402% | 0.116% |
| Preferred Equity | 1.084% | 4.579% | 0.050% |
| Common Equity | 51.403% | 9.450% | 4.858% |
| | 100.000% | | 7.262% |

2/ Tax Rate 2018
1- tax rate 24.4049% (Federal Tax Rate = 21%, Tax Rate = 4.31%)
75.5951%

**Montana-Dakota Utilities Co.
Electric Utility - North Dakota
Generation Resource Cost Adjustment
Balancing Account and Carry Charge Calculation**

| Cumulative | | | | | |
|-------------------|-----------|---------------------------|------------|-----------|----------------------------|
| | Beginning | Less: Amortization of | Ending | Carrying | Grand Total |
| | Balance | 2016 Under Recovery 1/ | Balance 2/ | Charge 3/ | (Over)/Under Collection |
| December 2016 | | | 1,831,582 | | 1,834,599 |
| January 2017 | 1,831,582 | | 1,831,582 | 484 | 1,835,083 |
| February | 1,831,582 | | 1,831,582 | 494 | 1,835,577 |
| March | 1,831,582 | | 1,831,582 | 703 | 1,836,280 |
| April | 1,831,582 | | 1,831,582 | 759 | 1,837,039 |
| May | 1,831,582 | | 1,831,582 | 845 | 1,837,884 |
| June | 1,831,582 | | 1,831,582 | 930 | 1,838,814 |
| July | 1,831,582 | | 1,831,582 | 1,016 | 1,839,830 |
| August | 1,831,582 | 17,731 | 1,813,851 | 959 | 1,823,058 |
| September | 1,813,851 | 69,395 | 1,744,456 | 968 | 1,754,631 |
| October | 1,744,456 | 69,293 | 1,675,163 | 967 | 1,686,305 |
| November | 1,675,163 | 71,084 | 1,604,079 | 1,068 | 1,616,289 |
| December | 1,604,079 | 78,436 | 1,525,643 | 1,097 | 1,538,950 |
| Total | | 305,939 | | 10,290 | |

1/ Deferred revenue from sales with rates approved in Case No. PU-16-666.

2/ (Over)/Under collection on revenue requirement not including the carrying charge, for use in calculating the carrying charge.

3/ Carrying charges calculated based on the three-month Treasury Bill rate, based on prior month ending balance.