



Public Service Commission

State of North Dakota

COMMISSIONERS

Randy Christmann
Julie Fedorchak
Brian Kroshus

Executive Secretary
Darrell Nitschke

600 East Boulevard, Dept. 408
Bismarck, North Dakota 58505-0480
Web: www.psc.nd.gov
E-mail: ndpsc@nd.gov
Phone: 701-328-2400
ND Toll Free: 1-877-245-6685
Fax: 701-328-2410
TDD: 800-366-6888 or 711

August 16, 2018

Darrell Nitschke
Executive Director
ND Public Service Commission
600 E. Boulevard Ave. Dept. 408
Bismarck, ND 58505-0480

Via Hand Delivery

Re: Montana-Dakota Utilities Co.,
a Division of MDU Resources Group, Inc.
Tax Reform Effects
Rates

Dear Mr. Nitschke:

Enclosed is a copy of a Memorandum to be filed in the above captioned case.

Best Regards,

Victor Schock – Advocacy Staff
Public Utilities Division

Enclosure

Memorandum

To: Commissioners, Randy Christmann, Julie Fedorchak, and Brian Kroshus

From: Victor Schock - Public Utility Analyst

VS

Date: August 17, 2018

Re: Montana-Dakota Utilities, Co. Tax Reform Effects Settlement Agreement

Case No. PU-18-89

On January 10, 2018 the Commission issued an order initiating investigation to determine the effect of the Tax Cuts and Jobs Act (TCJA) in Case No. PU-17-490.

On February 15, 2018 Montana-Dakota Utilities, Co. (MDU) filed initial comments with estimates of the effects on its electric and natural gas rates in Case No. PU-17-490.

On March 9, 2018 MDU filed an application to decrease its electric rates by \$7.2M annual in Case No. PU-18-89.

Since the March 9, 2018 filing, Advocacy Staff (Staff) has received additional data from MDU and conducted a thorough analysis of the impacts to MDUs reduced tax expenses relative to North Dakota electric operations. This analysis included determining the estimated value of the actual income tax expense reduction, the plant/protected excess deferred income taxes (EDIT) and non-plant/protected EDIT created by the TCJA.

Staff's findings are as follows:

- Income Tax Reduction: The actual income tax expense reduction is estimated at \$7,232,919. This reflects the effect of the income tax rate change from 35% to 21% on taxable income.
- Plant EDIT: The Internal Revenue Service (IRS) protects the method of return of the plant EDIT. The IRS specifies the manner and time period in which the EDIT for these assets must be reversed known as the Average Rate Assumption Method (ARAM). ARAM requires the return of EDIT over the remaining life of the asset that created the EDIT. The total protected EDIT balance is estimated at \$61,506,000, however using ARAM the 2018 reversal attributable to MDU North Dakota electric operations is valued at \$1,213,000. In its March 9 filing, MDU proposed to retain 100% of the Plant EDIT.
- Non-plant EDIT: Non-plant EDIT relates to the remaining company assets attributable to electric operations that do not qualify for IRS ARAM treatment. The Commission may set the timing and manner of return of the Non-plant EDIT. The total non-protected EDIT balance is estimated at \$1,778,283. MDU proposed to pass this back over 10 years.

Based on these findings Staff and MDU engaged in good faith settlement discussions in order to pass the savings back to customers as quickly and accurately as possible.

On August 10, 2018 MDU and Staff filed a settlement agreement for Commission approval that is intended to resolve the outstanding TCJA issues relative to MDU North Dakota electric operations.

The settlement agreement provides for an annual revenue reduction of \$8,436,006. This represents the entirety of the \$7.2M income tax reduction and 75% of the Plant EDIT. Additionally, 100% of the non-plant EDIT balance of \$1.7M will be tax effected (increases to \$2,352,379) and applied to the Generation (GCRR), Environmental (ECRR) and Transmission Rider (TCRR) under collected balances that arose after true-ups were calculated following the last rate case (PU-16-666). In total customers will receive all but approximately \$300,000 of the benefits attributable to TCJA. The \$300,000 will be retained by MDU in order to offset ongoing infrastructure investment projects to ensure the system is safe and reliable in the future.

There are three mechanisms that would be employed to pass these savings back to customers: customer refunds, rider rate adjustments and base rate adjustments.

- Customer Refund: The amount of the customer refund will be 4.5% of revenue collected starting January 1, 2018 through the date of final implementation. The exact refund and method of calculation will be filed within 30 days of Commission adoption of the settlement agreement. As of June 30, 2018, the refund amount was estimated at \$4M with a \$23 refund per average residential customer. This will continue to grow until the time of final rate implementation. The method of calculating the refund due to each customer from that total has not yet been determined. These revenues are not tracked separately as interim revenues are. To process the refund similar to interim rates would require MDU to manually process each account and push back the refund until early 2019. As a result of the potential delay, Staff is willing to consider alternative approaches to ensure a timely return of refunds.
- Rider Rate Adjustments: \$2,352,379 from non-protected EDIT will be applied to the under-collection balances of the electric riders in the following order: First to the ECRR, then to the GCRR, and in the event of a remainder, TCCR. The ECRR's current under-collection balance of \$1.5 M will be entirely eliminated going forward resulting in a reduction of approximately 82 cents per month for the average residential customer. The remaining non-plant EDIT should apply to the under-collected GCRR balance reducing, but not eliminating, the rider rate. The GCRR reduction will likely be worth about half as much to the average residential customer rider rates as the adjustment to the ECRR. In the off-chance of a remaining non-plant EDIT balance, it will be applied to the under-collected balance of the TCRR.
- Base Rate Adjustments: The base rate reduction will serve to ensure customers are paying just and reasonable rates for the service provided by MDU going forward. The base rate reduction will be applied to all classes on an equal percentage basis. This ensures that there is no marked change in the class

revenue allocation authorized in Case PU-16-666. Within each class, the reduction will be applied to the volumetric or energy component of the bill rather than the basic service charge. Applying the reduction in this manner will serve to ensure that rates remain closer to the true cost of service.

C: Tamie Aberle, MDU