



UTILITIES CO.

A Subsidiary of MDU Resources Group, Inc.

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January 22, 2020

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505-0480

Re: Renewable Resource Cost Adjustment
Rider
Case No. PU-19-355

Montana-Dakota Utilities Co. (Montana-Dakota) herewith submits, for the Commission's information, a summary of parameters underlying the two alternative revenue requirement calculations discussed at the Informal Hearing held on January 8, 2020 in the above referenced Case. The attached also provides a comparison of the estimated annual revenue requirement over the next twenty years under 1) Standard application of Production Tax Credits (PTC's) 2) Levelized PTC's and 3) Levelized – Return.

Victor Schock, Advocacy Staff in this Case, has reviewed the attached and is in agreement with the observations noted.

Sincerely,

A handwritten signature in black ink that reads 'Tamie A. Aberle'.

Tamie A. Aberle
Director of Regulatory Affairs

Attachments

cc: Jack Schuh
Victor Schock
Karl Liepitz
Garret Senger
Travis Jacobson

Montana-Dakota Utilities Co.

Renewable Rider – Revenue Requirement Levelization Scenarios

Case No. PU-19-355

Objective: Levelize the revenue requirement for each renewable asset receiving tax benefits that do not match the life of the asset:

Parameters:

1. The revenue requirement for each facility (existing and new) shall be determined on a standalone basis and recovered through the renewable rider mechanism.
2. The annual revenue requirement projection should match the depreciable life of each asset requiring projections for up to 25 years for new facilities.
3. The annual revenue requirement to be recovered from customers will reflect a redistribution of PTCs to approximately offset the return requirement each year.
4. Montana-Dakota's 2019 true-up balance of \$2,840,713 established in Case No. PU-19-355 shall be deferred as an offset to the overcollection to be deferred as part of the 2020 levelized revenue requirement.
5. The balancing account (or true-up) for 2020 and subsequent years will be determined based on a true up of the annual revenue requirement reflecting actual plant investment and expenses for the 12 months ending September plus an estimate for October-December as compared to revenues collected during that same period. Assets subject to levelization will require the true-up to be based on an updated levelized revenue requirement.
6. The revenue requirement for assets that are no longer eligible for PTC's will not reflect a levelized revenue requirement. If such assets are subsequently repowered and qualifies to receive PTC's the revenue requirement for the asset will be levelized.
7. The charge under the renewable rider will reflect the summation of the revenue requirement to be collected for each asset.
8. The difference between the revenue requirement to be recovered under the levelization procedure and the revenue requirement determined on a non-levelized basis shall be deferred and accounted for as a regulatory asset/liability. The balance in this account shall be added/deducted from the asset's rate base in determining the required return on rate base each year.
9. This process will not necessarily result in a levelized total revenue requirement to be recovered under the rider rates.

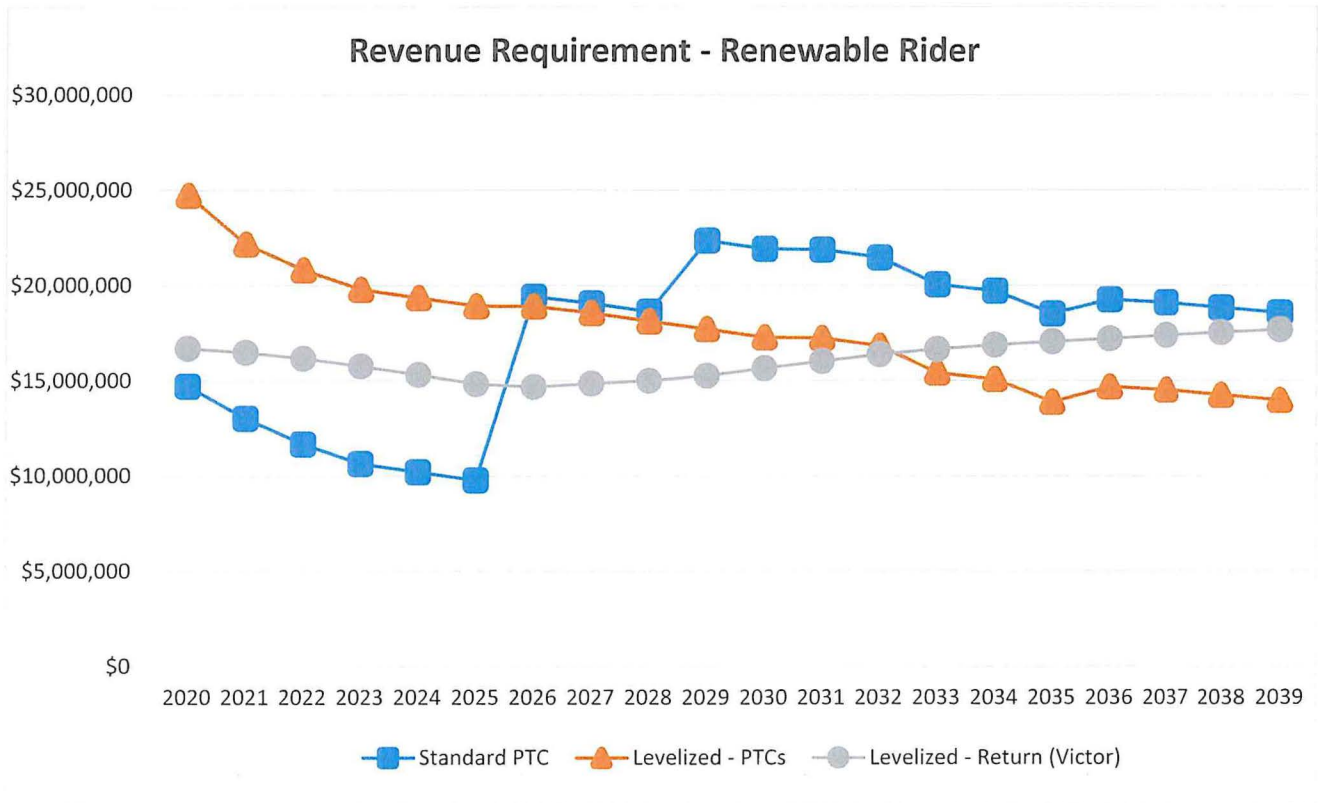
Objective:

Levelize the PTCs associated with each wind project over the remaining life of each wind project to provide a tax credit to customers beyond the 10-year tax credit prescribed by the Internal Revenue Service.

Parameters:

1. The PTCs projected for the period 2020 through the end of availability of the tax credits for each facility will be spread over the remaining life of the facility.
2. Montana-Dakota's 2019 true-up balance of \$2,840,713 established in Case No. PU-19-355 shall be deferred as an offset to the overcollection to be deferred as part of the 2020 levelized revenue requirement.
3. The difference between the revenue requirement to be recovered with PTCs spread over the life of the facility and the revenue requirement determined on a non-levelized basis shall be deferred and accounted for as a regulatory asset/liability. The balance in this account shall be added/deducted from the asset's rate base in determining the required return on rate base each year.

Following is a summary of the results under the current standard PTC methodology and the two alternatives described above.



Revenue Requirements

Year	Standard PTCs	Levelized - PTCs	Levelized - Return (Victor)
2020	\$14,714,969	\$24,718,513	\$16,691,802
2021	13,029,665	22,167,689	16,484,048
2022	11,675,124	20,813,148	16,167,149
2023	10,649,828	19,787,852	15,764,801
2024	10,209,380	19,347,404	15,309,826
2025	9,776,628	18,914,652	14,823,498
2026	19,411,511	18,902,794	14,667,573
2027	19,060,621	18,551,904	14,844,990
2028	18,624,121	18,115,404	14,994,136
2029	22,351,648	17,708,613	15,261,446
2030	21,913,627	17,270,592	15,646,865
2031	21,879,033	17,235,998	16,015,316
2032	21,464,064	16,821,029	16,367,624
2033	20,049,801	15,406,766	16,654,255
2034	19,717,147	15,074,112	16,878,162
2035	18,518,470	13,875,435	17,047,086
2036	19,259,180	14,673,846	17,199,568
2037	19,094,175	14,508,841	17,372,720
2038	18,829,548	14,244,214	17,530,446
2039	18,555,138	13,969,804	17,668,818

The Revenue Requirements reflect the following assumptions:

- The revenue requirements do not include the 2019 true up of \$2.8.
- Each wind facility was modeled for a 20-year period.
- PTCs for Diamond Willow and Cedar Hills expire in 2020.
- Thunder Spirit – 2020 is 5th year of PTCs and the expansion is in 3rd year.
- No major capital additions were included.
- No change in depreciation or decommissioning rates were incorporated.