

Memorandum

To: Commissioners Christmann, Fedorchak and Kroshus

From: Victor Schock Public Utility Analyst

VS

Date: November 25, 2020

Re: Montana-Dakota Utilities Co., Renewable Resource Cost Recovery, Rates,
Case No. PU-20-440

On November 2, 2020 Montana-Dakota Utilities Co. (MDU) filed a change to its Renewable Resource Cost Adjustment (RRCA) rates. The new rates reflect projected costs through December 31, 2021 related to investment in the Thunder Spirit Wind Project, Cedar Hills Wind Project, and Diamond Willow Wind Project, and reflect a projected under-collected balance of the current RRCA as of December 31, 2020.

The filing proposes a 2021 revenue requirement of \$20,795,630, a decrease of \$230,238 from 2020's filing. The reduced revenue requirement coupled with a reduced usage estimate results in an increase to the average residential customer of \$0.02 per month. The revenue requirement categories changed from 2020 to 2021 as follows:

- **Project Costs:** The revenue requirement includes the cost of the Cedar Hills, Diamond Willow and Thunder Spirit wind facilities. Due to depreciation reducing the net plant balance, this portion of the revenue requirement was a decrease of approximately \$323,000 from 2020 to 2021.
- **PTC Levelization:** Due to the Commission's Order in Case PU-19-355, the PTCs earned by the Thunder Spirit wind facility must be levelized over the life of the project. The levelization was intended to smooth out the cost of the wind facility to customers over the life of the project. The method used to calculate the levelization requires recalculation on an annual basis to account for changes in the amount of PTCs actually earned versus the estimates that have been used. For 2021 this resulted in a net increase to this line item of \$1,363,235 relative to 2020. Staff notes that for the current filing, MDU neglected to treat the additional levelization revenue balance as an offset to rate base. Staff believes it is appropriate to treat the balance as a rate base offset due to the planned nature of the levelization versus the normal over/under collection balance that is the result of usage and cost fluctuations. Staff discussed the issue with MDU, who has agreed to make the change on their 2022 RRCA annual update. That update will incorporate the change back to 2020 by way of a true-up. Staff believes this is acceptable due to the change making a relatively small difference to the 2021 revenue requirement.
- **RRCR True-up:** The true-up represents the over or under collection for the previous year. MDU is projecting an under-collection of \$1,570,240 for the prior year,

which results in a net decrease to this line of approximately \$1,270,473 from 2020 to 2021.

Staff believes the incurred costs detailed in MDU's filing are reasonable and prudent, comply with MDU's tariff, and are eligible for recovery through the RRCA. Based on this and the details contained within the filing, Staff recommends approval of MDU's 2021 RRCA rates.

c. Travis Jacobson