

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Montana- Dakota Utilities Co.
Financial Incentive – Power Purchase Agreement
Rates**

Case No. PU-21-373

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

February __, 2022

Appearances

Commissioners Julie Fedorchak and Randy Christmann.

Paul Sanderson, Evenson Sanderson, PC, 1100 College Drive, Suite 5, Bismarck, North Dakota 58501, appearing on behalf of Montana-Dakota Utilities Co. ("Montana-Dakota").

Brian L. Johnson, Legal Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, North Dakota 58505, appearing on behalf of Public Service Commission Advocacy Staff.

John M. Schuh, General Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, North Dakota 58505, appearing on behalf of the Public Service Commission Advisory Staff.

Hope Hogan, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street, Suite 303, Bismarck, North Dakota 58503 as Procedural Hearing Officer.

Preliminary Statement

On August 17, 2021, Montana-Dakota submitted, for Public Service Commission (the "Commission") approval, an Application for Rate Treatment of a Financial Incentive (the "Application") pursuant to N.D.C.C. § 49-16-02(4). Montana-Dakota requested recovery in rates of a financial incentive related to two power purchase agreements (PPA) with Minnkota Power Cooperative ("Minnkota") for the purchase of electric capacity and energy from the Milton R. Young Unit 1 coal-fired electric generation facility. Montana-Dakota proposed the financial incentive be recovered in its existing Generation Resource Recovery Rider ("GRRR") – Rate 56.

On October 27, 2021, Public Service Commission Advocacy Staff ("Staff") filed a

recommendation regarding the Application, recommending denial of the Application.

On November 9, 2021, Montana-Dakota filed rebuttal and additional testimony in support of the Application.

On December 15, 2021, the Commission issued a Notice of Hearing, and scheduled a public hearing on the Application for January 20, 2022. The issues identified in the Notice for Hearing for consideration by this Commission were:

1. Whether the purchase agreements are for power from a new or existing facility utilizing lignite mined in this state as its primary fuel, and
2. Whether the purchase agreements are for power from a dispatchable on-demand generating unit, plant or facility, and
3. Whether the purchase agreements are for power that will protect grid reliability, and, if so,
4. What is a reasonable rate for the financial incentive for the power purchase agreements, and
5. Is it appropriate for the financial incentive to be included in the company's existing Generation Resource Recovery Rider – Rate 56?

On January 20, 2022, a public hearing was held as scheduled in the Commission Hearing Room, State Capitol, 600 E. Boulevard Avenue, 12th Floor, Bismarck, North Dakota 58505.

Having allowed all interested persons an opportunity to be heard, and having heard, reviewed, and considered all testimony and evidence presented, the Commission makes the following:

Findings of Fact

1. Montana-Dakota is a Delaware corporation, duly authorized to provide electric service to retail customers in North Dakota.
2. Montana-Dakota entered into two PPAs with Minnkota for the purchase of capacity and energy from the Milton R. Young Unit 1.
3. The Milton R. Young Unit 1 is a coal-fired power plant located near Center, North Dakota.
4. The Milton R. Young Unit 1 utilizes North Dakota mined lignite for power generation.

5. The Milton R. Young Unit 1 is a dispatchable, on-demand generation facility.
6. The Milton R. Young Unit 1 helps protect grid reliability because it is capable of delivering energy to the transmission system on a demand basis, helps to control transmission system voltage, and provides ancillary service in the area. Further, the PPAs from the Milton R. Young Unit 1 help ensure energy and capacity will remain available to support local customers across the state and region.
7. Montana-Dakota proposed a financial incentive based upon the weighted average cost of capital, including the authorized return on equity from Montana-Dakota's last electric rate case (Case No. PU-16-666). This would be 6.939 percent based on the following capital structure, including the return on equity of 9.65 percent:

| | Ratio | Cost | |
|-----------------|-----------------|--------|---------------|
| Long Term Debt | 43.871% | 4.647% | 2.039% |
| Short Term Debt | 6.310% | 1.463% | 0.092% |
| Common Equity | 49.819% | 9.650% | 4.808% |
| | <u>100.000%</u> | | <u>6.939%</u> |

8. Montana-Dakota proposes the following allocation of revenues resulting in an increase by rate class as described below:

| Allocation of Costs & Rates | Allocated Costs | Projected Billing Determinants | Proposed GRRR Rates |
|-----------------------------|--------------------|-----------------------------------|------------------------|
| Residential & Small General | \$34,005 | 864,798,670 Kwh | \$0.00004 per Kwh |
| Large General | 36,657 | 3,140,613 KW | \$0.01167 per KW |
| Space Heating Rate 32 | 1,389 | 275,414 KW | \$0.00504 per KW |
| Lighting | 337 | 19,125,548 Kwh | \$0.00002 per Kwh |
| | <u>\$72,388</u> | | |

Conclusions of Law

1. The Commission has jurisdiction in this proceeding.
2. The Commission has sufficient authority to determine if a generating unit, plant, or facility is deemed to protect grid reliability.
3. Montana-Dakota has demonstrated that it is entitled to recover a reasonable financial incentive pursuant to N.D.C.C. § 49-16-02(4) because the Minnkota PPAs are for power from an existing facility utilizing lignite mined in the State, the Minnkota PPAs are for power from a dispatchable on-demand generating that assists in protecting grid reliability.
4. The weighted average cost of capital, including the authorized return on equity, is a reasonable rate to use as a financial incentive.

5. The rates proposed provide a reasonable rate of return on Montana-Dakota's PPAs.
6. The rates proposed are designed to result in a basis of charge to customers that are just and reasonable without discrimination.
7. It is reasonable for Montana-Dakota to recover this financial incentive in its GRRR.

From the for foregoing Findings of Fact and Conclusions of Law, the Commission makes the following:

Order

The Commission hereby Orders as follows:

1. Montana-Dakota Utility Co. shall be entitled to recover a financial incentive pursuant to N.D.C.C. §49-16-02(4) related to the two Power Purchase Agreements with Minnkota Power Cooperative described in Montana-Dakota's Application for Rate Treatment of a Financial Incentive filed on August 17, 2021.
2. The financial incentive shall be Montana-Dakota's weighted average cost of capital, including the authorized return on equity.
3. The Financial Incentive shall be recovered in Montana-Dakota's existing Generation Resource Recovery Rider – Rate 56 through the true up mechanism in the next annual filing to be filed on or about November 1, 2023.
4. Montana-Dakota's existing Generation Resource Recovery Rider – Rate 56 shall be replaced with the updated tariff attached hereto as Attachment 1.
5. This change shall be effective 10 days following the date of the Order.

PUBLIC SERVICE COMMISSION

Randy Christmann
Commissioner

Julie Fedorchak
Chair

Vacant

Dated today, February 10, 2022.

EVENSON SANDERSON PC
Attorneys for MDU
1100 College Drive, Suite 5
Bismarck, ND 58501
Telephone: 701-751-1243
psanderson@esattorneys.com

By: /s/ Paul Sanderson
Paul R. Sanderson (ID# 05830)