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January 31, 2023

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

Re: Electric Service Agreement – Margin Sharing
Case No. PU-22-371

Montana-Dakota Utilities Co. (“Montana-Dakota” or “Company”) herewith electronically submits to the North Dakota Public Service Commission (“Commission”) its Application to Establish Margin Sharing related to an Electric Service Agreement (“ESA”) under the Company’s recently authorized High Density Contracted Demand Rate 45.

Montana-Dakota filed an Application and Notice of Change in General Electric Rates in Case No. PU-22-194 on May 16, 2022. Montana-Dakota then filed an ESA between the Company and Applied Digital (formerly known as Applied Blockchain) (“Applied”) on September 21, 2022 in this proceeding. And, on October 14, 2022, the Company filed an Application for Permanent Authority to Extend Service to Applied for a High-Density load to be served under Rate 45 in Case No. PU-22-370.

Marathon Petroleum Company LP (“Marathon”) filed a Petition to Intervene in Case No. PU-22-194 on August 8, 2022 and also filed Comments in this proceeding on December 8, 2022. Marathon noted appreciation and support of Montana-Dakota’s efforts to attract new load in its service area through its new rate offering. However, Marathon expressed concerns regarding the treatment of incremental margin in the Company’s rate case and their desire that the Commission ensures this new customer’s contributions cover any incremental costs incurred to serve this customer. In addition, Marathon suggested that the net revenues should be used to help mitigate any increase from the electric rate case.

Dakota Valley Electric Cooperative, Inc. (“Dakota Valley”) filed on October 24, 2022 protesting Montana-Dakota’s Applications for Permanent Authority and requested a hearing, which was held December 19, 2022 at the North Dakota State Capitol. During the hearing, both Montana-Dakota and Dakota Valley presented evidence regarding the ten factors to be considered by the Commission when determining whether to grant Montana-Dakota’s Application for Permanent Authority. During the hearing, the

Commission requested that Montana-Dakota and Dakota Valley work together to strike a balance so that both parties benefit from this load addition.

To alleviate the concerns expressed by Marathon and establish a beneficial arrangement with Dakota Valley, as well as respond to the Commission's request to "be good neighbors", Montana-Dakota now files this Application to Establish Margin Sharing ("Application"). From a high level, the Company's proposal provides a framework that considers 1) customers; 2) impacted parties; and 3) the Company. Each will be discussed below but first the Company expands on the reasons for the special treatment of new customers served under Rate 45.

Rate 45 Customers and Potential Margin

Montana-Dakota has spent considerable time and effort over the past year to establish its recently authorized Rate 45 and its first ESA with Applied. Rate 45 was developed to address the unique requirements of certain customers. With that in mind, the Company's objective was to 1) create a rate that was amenable to customers – again, these customers have very unique business needs which must be met in order for the customers to locate in an area; 2) insulate existing customers from any potential detrimental impacts of adding these unique customers; and 3) provide incremental benefits to existing customers while, at the same time, incentivize the Company to aggressively seek and work with these new potential customers.

This class of customers does not have an established history of electric usage or longevity of its business model on Montana-Dakota's electric system. For these reasons, inclusion of these new customers in the Company's revenue requirement in a general electric rate case is not a good fit. The attached Application attempts to address all aspects identified above.

Impact on North Dakota Customers

Montana-Dakota has structured the ESA such that each Rate 45 customer will cover the incremental costs incurred as a pass through of those costs. The Company has taken considerable effort to isolate any and all new or incremental charges that will be passed through to the Rate 45 customers. In addition, Montana-Dakota will charge the new customer for transmission services. The additional revenue received for the transmission services will be included in the Transmission Cost Adjustment ("TCA") Rate 59. The result will be a direct recovery of any incremental costs incurred and the return of revenue received from Rate 45 customers which will ultimately lower TCA rates for all customers. While the Company expects this to occur completely independent of any margin sharing, this benefit must be recognized in the context of the margin sharing request and the potential impact of Rate 45 customers.

In addition, the ESA requires that Applied provides an upfront payment for the Company's capital investment necessary to extend service to Applied's data center.

Because Applied is required to pay upfront, the Company will not see an increase in its rate base and the Company's other customers can be assured that there is no incremental increase in costs as a result of adding this customer. And, if this customer were to cease operations at any point in the future, there will be no associated investment that has the potential to impact other customers. Further, a typical Rate 45 customer will not utilize the Company's generation fleet or distribution investments.

Lastly, the proposed Application includes a portion of the incremental margin to be refunded to customers. This sharing of the margin, as proposed, would be determined annually and provided to customers through a bill credit over the following twelve months. The bill credit would be shown as a separate line on each customer's bill. The estimated impact to a residential customer is shown in the table below.

Residential Rate Impact	Monthly Impact	Annual Impact
Average Monthly Kwh	894	
TCA Credit	\$2.35	\$28.20
Margin Sharing Credit	1.26	15.12
	<u>\$3.61</u>	<u>\$43.32</u>

Impacted Parties

As previously mentioned, Dakota Valley filed a protest to the Company's Applications for Permanent Authority to serve Applied's office and data center. Both utilities serve customers near the location of Applied's office and data center. Recognizing that only one utility will be authorized to serve the new large customer, Montana-Dakota and Dakota Valley engaged in substantial and constructive discussions which ultimately led to Dakota Valley withdrawing its protests in Case Nos. PU-22-366 and PU-22-370. In addition, Dakota Valley will be submitting a letter in support of the Company's Application to Establish Margin Sharing which provides a financial sharing of the Company's margin in recognition of the overlap of the service territories and their committed support to keep this customer operating and contributing to the local and statewide economies in North Dakota.

Like Montana-Dakota's other customers, under this proposal and discussed in more detail in the Application, Dakota Valley would stand to receive an annual portion of the Company's retained margin from Applied. The Company's proposed treatment regarding the timing of the sharing for Dakota Valley does differ from the Company's other customers as it would occur within 30 days of Commission approval of the Company's annual filing. Because Dakota Valley is not a customer of Montana-Dakota, the monthly volumetric margin sharing treatment for Dakota Valley would not work since they do not take energy from Montana-Dakota.

Montana-Dakota

As previously discussed, Montana-Dakota has developed Rate 45 and the ESA with Applied in a way that will insulate customers from incremental charges and provide significant benefits, a result of the Company's innovative approach to creating a rate that is attractive to this unique class of customers. The approach, certainly by design, does not result in an increase in rate base. As is well known by the Commission and others knowledgeable of utilities in general, the Company's investment in rate base is the primary driver in the ability to earn a return to shareholders and continue to be a viable and successful company. Absent the proposed sharing agreement, the Company's shareholders would not receive any resulting benefits. The proposed sharing mechanism, which provides significant benefits as previously noted, would allow Montana-Dakota to retain a portion of the margin associated with Applied. This mechanism would provide a continued incentive to aggressively pursue new customers through attractive locations on the Company's transmission system, particularly in those locations that are somewhat disadvantaged in the Midcontinent Independent System Operator ("MISO") market due to transmission constraints or other negative pricing impacts. Montana-Dakota and its employees are very well tuned to understanding its system, the MISO system and how outside factors are expected to influence the viability of the various locations suitable for this type of customer.

In summary, the attached Application to Establish Margin Sharing provides substantial benefits to Montana-Dakota's retail electric customers, attempts to address the concerns expressed by Marathon, provides a financial benefit to Dakota Valley and provides a reasonable retention of margin. If approved, an appropriate balance will be achieved which can be used as a scalable template moving forward encouraging the Company to continue its hard work and innovative thinking to attract and serve additional Rate 45 customers within its integrated electric system.

Please contact me at (701) 222-7855 or travis.jacobson@mdu.com if you have any questions regarding this compliance filing.

Sincerely,

/s/ Travis R. Jacobson

Travis R. Jacobson
Director of Regulatory Affairs

Attachments

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

In the Matter of MONTANA-DAKOTA)
UTILITIES CO.'s Application to) Case No. PU-22-371
Establish Margin Sharing)

APPLICATION TO ESTABLISH MARGIN SHARING

COMES NOW, Montana-Dakota Utilities Co., the Applicant in the above-entitled proceeding (hereafter "Montana-Dakota", "Applicant" or "Company") and respectfully submits the following Application and information in support thereof.

I.

That Montana-Dakota is a Delaware corporation duly authorized to do business in the State of North Dakota as a foreign corporation. Montana-Dakota is doing business in the State of North Dakota as a public utility.

II.

The Company's Certificate of Incorporation and amendments thereto have previously been filed with the North Dakota Public Service Commission ("PSC" or "Commission"). Such Certificate and Amendments are hereby incorporated by reference.

III.

That Applicant's full name and post office address are:

Montana-Dakota Utilities Co.
400 North Fourth Street
Bismarck, North Dakota 58501

IV.

Montana-Dakota has entered into an Electric Service Agreement (“ESA”) with Applied Digital (formerly known as Applied Blockchain) (“Applied”) to provide service to its data center under the High Density Contracted Demand Rate 45. In recognition of the uniqueness of this Rate and ESA, Montana-Dakota now requests the Commission approve a sharing of the margin received from Applied. The Margin Sharing Credit (“MSC”) mechanism provides benefits threefold:

1. Montana-Dakota’s customers;
2. Dakota Valley Electric Cooperative, Inc. (“Dakota Valley”); and
3. Margin retained by Montana-Dakota.

The proposed sharing method and the MSC mechanism are described in further detail below.

V.

Montana-Dakota’s proposed method of sharing the Applied margin is shown on Confidential Exhibit 1. On September 21, 2022, Montana-Dakota filed an Application for Trade Secret Protection. Confidential Exhibit 1 contains the same information from the ESA upon which the Company is requesting trade secret protection.

The sharing between the parties strikes a reasonable balance that provides significant value to customers relative to the rate base to serve this customer; compensates Dakota Valley as an affected party and adequately incents their continued support of the facility and the region; and incentivizes Montana-Dakota to retain this customer and work innovatively to attract additional Rate 45 customers to maximize the full potential of the integrated electric system. The Company expects future customers will continue to add benefits for all parties as well as the local and statewide economies in North Dakota.

VI.

Under the proposed sharing mechanism, Montana-Dakota would file annually, no later than February 1, an annual Rate 45 margin sharing report. Within the report, the total margin collected under Rate 45 would be reported, along with the amount to be shared with the Company's North Dakota electric customers. The total margin sharing amount would then be allocated to the Company's various rate classes based on the transmission allocation factor from Montana-Dakota's most recent North Dakota general electric rate case. A per unit credit would then be determined by dividing each rate class's margin sharing amount by the forecasted volumes for each rate class. The MSC would be reflected as a separate line item on each customer's bill based on the usage for that month.

Following the first year of the MSC, the annual report would also include any prior period over or under collected balances.

If approved, the first MSC would require at least 30 days from the date of Commission approval to implement the separate line item on customers' bills. Starting with the second MSC report, the new per unit credit could be implemented the first day of the month following Commission approval.

VII.

Under the proposed sharing mechanism, Montana-Dakota's annual filing would also determine the appropriate share to be provided to Dakota Valley. Upon approval of the annual report, Montana-Dakota would provide payment to Dakota Valley no later than 30 days following the date of Commission approval.

VIII.

As noted above, Montana-Dakota proposes to allocate the margin sharing credit to the Company's various rate classes based on the transmission allocation factor from Montana-Dakota's most recent North Dakota general electric rate case. Upon Applied becoming fully operational for an annual period, the expected impact to a residential customer is shown in the table below.

Residential Rate Impact	Monthly Impact	Annual Impact
Average Monthly Kwh	894	
TCA Credit	\$2.35	\$28.20
Margin Sharing Credit	1.26	15.12
	<u>\$3.61</u>	<u>\$43.32</u>

IX.

Applicant respectfully requests that the Commission approved this Application to Establish Margin Sharing along with the ESA and the margin sharing mechanism to be implement following the end of the first calendar year of operations of Applied.

Dated this 31st day of January 2023.

MONTANA-DAKOTA UTILITIES CO.

/s/ Travis Jacobson

Travis R. Jacobson
Director of Regulatory Affairs