

Memorandum

To: Commissioners Christmann, Haugen-Hoffert and Fedorchak

From: Chris Hanson Public Utility Analyst

Date: February 8, 2023

Re: Montana-Dakota Utilities Co., Renewable Resource Cost Recovery, Rates,
Case No. PU-22-401

On November 1, 2022, Montana-Dakota Utilities Co. (MDU) filed a change to its Renewable Resource Cost Adjustment (RRCA) rates to be effective February 1, 2023. The new rates reflect projected costs through December 31, 2023, related to investment in the Thunder Spirit Wind Project, Cedar Hills Wind Project, Diamond Willow Wind Project, Diamond Willow repower project and reflect a projected over-collected balance of the current RRCA as of December 31, 2022.

On January 31, 2023, MDU revised this filing to reflect a staff requested change to depreciation rates, to correct an omission of certain O&M expenses and to change the effective date to March 1, 2023. The revised filing proposes a 2023 revenue requirement of \$15,359,071, a decrease of \$2,651,732 from the 2022 filing as shown below:

	Prior Filing	11/1/22 Filing	1/31/23 Filing	Variance
Project Costs	\$ 12,360,329	\$ 10,889,845	\$ 10,044,663	\$ (2,315,666)
Levelization	6,298,380	7,764,537	7,764,537	1,466,157
Over Recovered Balance	(647,906)	(770,904)	(827,829)	(179,923)
Feb'23 est RRAR Collections		-	(1,622,300)	(1,622,300)
	\$ 18,010,803	\$ 17,883,478	\$ 15,359,071	\$ (2,651,732)

The reduced revenue requirement results in a decrease to the average residential customer of \$0.49 per month recovered over 11 months due to the revised effective date of March 1, 2023. The revenue requirement categories changed from 2022 to 2023 as follows:

- Project Costs: The revenue requirement includes the cost of the Cedar Hills, Diamond Willow, Diamond Willow repower and Thunder Spirit wind facilities. Due to depreciation reducing the net plant balance and the addition of the regulatory liability caused by the PTC levelization, this portion of the revenue requirement was a decrease of approximately \$2,315,666 from 2021 to 2022.

The difference between the 11/1/22 original filing and 1/31/23 revised filing was a reduction of \$845,182. This was comprised of reduction in depreciation expense of \$990,657 reflecting a staff requested change to utilize previously approved depreciation rates rather than the rates proposed in the MDU 2020 Depreciation Study which was

submitted and is being reviewed as part of PU-22-194. This was partially offset by an in O&M expense increase of \$99,000 related to omitted benefit expenses in the 2023 test year, \$37,987 related to a higher rate base as well as miscellaneous other expenses that resulted from these changes.

- **Levelization:** Due to the Commission's Order in Case PU-19-355, PTCs must be levelized over the life of the projects. The levelization was intended to smooth out the cost of the wind facility to customers over the life of the project. This requires recalculation on an annual basis to account for changes in the amount of PTCs actually earned versus the estimates that were used. Additionally, based upon the benefits defined in the Inflation Reduction Act of 2022, MDU anticipates that the PTC related to the Diamond Willow repower will qualify for full value rather than 80% as was assumed in the prior year filing. For 2023 this resulted in a net increase to this line item of \$1,466,157 relative to 2022.
- **RRCR True-up:** The true-up represents the over or under collection for the previous year. MDU is projecting an over-collection of \$827,829 for the prior year, which results in a net decrease to this line of approximately \$179,923 from 2022 to 2023.
- **February 2023 Estimated RRAR Collections-** Due the staff requested revision to the RRAR, the implementation of the RRAR was delayed from February 1 to March 1, 2023, resulting in one month's RRAR collections which MDU estimates to be \$1,622,300.

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 2023 RRCA rates.

c. Travis Jacobson