

Memorandum

To: Commissioners Christmann, Haugen-Hoffert and Fedorchak

From: *CH* Chris Hanson Public Utility Analyst

Date: January 30, 2024

Re: Montana-Dakota Utilities Co., Renewable Resource Cost Recovery, Rates, Case No. PU-23-340

On October 31, 2023, Montana-Dakota Utilities Co. (MDU) filed a change to its Renewable Resource Cost Adjustment (RRCA) rates to be effective February 1, 2024. The new rates reflect projected costs through December 31, 2024, related to investment in the Thunder Spirit Wind Project, Cedar Hills Wind Project, Diamond Willow Wind Project and reflect a projected over-collected balance of the current RRCA as of December 31, 2023.

On January 29, 2024, MDU revised this filing and changed the effective date to March 1, 2024. The revised filing proposes a 2024 revenue requirement of \$19,549,566, an increase of \$4,190,495 from the 2023 filing as shown below:

	Prior Filing	1/29/24 Filing	Variance
Project Costs	\$ 10,044,663	\$ 9,103,731	\$ (940,932)
Levelization	7,764,537	7,669,310	(95,227)
Over/ (Under) Recovered Balance	(827,829)	2,776,525	3,604,354
Feb'23 est RRAR Collections	(1,622,300)		1,622,300
	<u>\$ 15,359,071</u>	<u>\$ 19,549,566</u>	<u>\$ 4,190,495</u>

The increased revenue requirement results in an increase to the average residential customer of \$1.51 per month recovered over 11 months due to the revised effective date of March 1, 2024. The revenue requirement categories changed from 2023 to 2024 as follows:

- **Project Costs:** The revenue requirement includes the authorized return on rate base for the Cedar Hills, Diamond Willow and Thunder Spirit wind facilities as well as operating expenses for the same facilities.

The overall project costs decreased by \$940,932. This was due to a \$1,772,032 decrease in the return on rate base, \$387,068 reduction in depreciation and a \$112,567 reduction in property taxes partially offset by a \$1,075,641 reduction in Production Tax Credits.

- 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. The 2024 filing is a slight decrease compared to the 2023 filing due to lower estimated Kwh.
- RRCR True-up: The true-up represents the over or under collection for the previous year. MDU is projecting an under-collection of \$2,776,525 for the prior year, which results in a net increase to this line of approximately \$3,604,354 from 2023 to 2024. The primary driver of this change was that MDU mistakenly included the February 2023 revenues in the revised 2023 filing resulting in under-collecting \$1,622,300 in 2023. Thus, for 2024, MDU needs to collect this amount. Thus, this is responsible for \$3,244,600 of the total change from year to year. The additional amount was due to over-estimated Production Tax Credits.

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 2024 RRCA rates.

c. Travis Jacobson