

Memorandum

To: Commissioners Christmann, Haugen-Hoffart and Fedorchak

From: Christopher C Hanson Public Utility Analyst

Date: 6/26/2024

Re: Otter Tail Power Company/Montana-Dakota Utilities Co., 345kV Transmission Line-Jamestown to Ellendale, Public Convenience & Necessity, Case No. PU-24-91

On February 29, 2024, Otter Tail Power Company (OTP) and Montana-Dakota Utilities Co. (MDU) filed a joint application for a Certificate of Public Convenience and Necessity to construct, own and operate approximately 85 miles of 345kV transmission line and expand four substations located in Stutsman, LaMoure, and Dickey Counties in North Dakota.

A Notice of Opportunity for Hearing was issued on February 29, 2024, with a due date of May 10, 2024. No requests for hearing were received.

Both OTP and MDU are members of the Midcontinent Independent System Operator (MISO), which is a Regional Transmission Organization (RTO) responsible for overseeing and managing the electric power transmission grid across 15 U.S. states as well as the Canadian province of Manitoba.

In July 2022, MISO approved the first phase or "tranche" of its Long-Range Transmission Planning (LRTP). Tranche 1 consists of 18 projects, with a total of more than 2,000 miles of lines totaling over \$10 billion in investments. As noted above, this specific project is comprised of 85 miles of 345kV lines with a total estimated investment of \$440 million and is expected to be in service by the end of 2028. \$380 million of this cost is directly related to the 345kV line and the remaining \$60 million is for upgrading four substations to serve the line. Ownership of the facilities is roughly 50/50 with some facilities being owned and operated by one or the other company and some facilities being jointly owned.

MISO utilizes three criteria to determine the necessity of a project. These criteria are that it 1) addresses projected violations of a reliability standard, 2) has a benefit-to-cost ratio in excess of 1.0 and 3) supports the reliable and economic delivery of energy.

This project was identified as a priority by MISO along with the Big Stone South-Alexandria- Big Oaks 345 KV project to relieve 40 transmission elements with excessive thermal loadings for N-1 contingencies and 70 for N-1-1 contingencies which relate to the

ability to maintain normal operations in the event of a single (N-1) or series (N-1-1) of contingent events. Additionally, this project along with other Zone 1 (MSIO subregion containing MDU & OTP operating areas) projects were determined to have a benefit-to-cost ratio of between 2.6 and 4.0. This and the other Tranche 1 projects supports the projected addition of 90 GW of generation in the MISO Midwest Subregion, including over 4.5GW in North Dakota. All of these facts meet or exceed the criteria specified by MISO. MISO has further deemed OTP & MDU capable of constructing and maintaining these facilities.

While these factors support the determination of public convenience and necessity as defined in North Dakota Century Code (NDCC) 49-03.1-04, the costs and benefits entailed are based upon those accrued by MISO as a whole, rather than strictly MDU and OTP individually. Thus, further analysis of the costs and benefits as they related to these companies and their customers is warranted.

A critical point to make regarding this project is that none of MDU's and only a small percentage of OTP's investment in this project will be allocated to the North Dakota jurisdictional rate base. MISO pays the owner of these facilities a return on the investment, depreciation expenses plus an estimate of operating and other expenses based upon standard formulas and thus a majority of this investment is considered to be in the 'FERC' (Federal Energy Regulatory Commission) jurisdictional rate base.

Costs for projects approved under MISO's LRTP Tranche 1 will be recovered on a prorata basis utilizing each company's energy use as a proportion of the MISO Subregion total. For MDU this prorata basis is 0.67% and for OTP it is 1.57%. This results in a combined net cost to MDU's and OTP's North Dakota customers of an estimated \$469k annually or roughly \$234-235k each. That translates in an additional cost of \$0.123 per month for MDU and \$0.177 per month for OTP residential customers consuming 1000 kWh per month.

These facilities will also be liable for several million dollars of property taxes paid to various governmental entities in North Dakota based upon the value of these facilities.

Staff requested that MDU & OTP analyze the overall impact of all of the MISO Tranche 1 projects upon their customers as well as this single project. As noted, MISO Tranche 1 is comprised of 18 projects with a total value of \$10.324 billion with a revenue requirement of approximately \$1.25 billion in 2031 after all of the projects are scheduled to be completed. Based upon this analysis, it is estimated that total impact of MISO Tranche 1 will be an additional cost of \$3.15 per month for MDU and \$5.75 per month for OTP residential customers consuming 1000 kWh per month.

An informal hearing on this matter is scheduled for July 8, 2024, from 1:30-3:00.

Cc Matt Olsen-Otter Tail Power
Travis Jacobson- Montana-Dakota Utilities