

Memorandum

To: Commissioners Christmann, Haugen-Hoffart and Fedorchak

From: Christopher C Hanson Public Utility Analyst
cc #

Date: 9/19/2024

Re: Montana-Dakota Utilities Co., 2023 Earnings Sharing Refund Plan, Approval,
Case No. PU-24-177

On May 1, 2024, Montana-Dakota Utilities Co. (MDU) filed a request for approval of the 2023 Earnings Sharing Refund Plan pursuant to the Commission's June 6, 2023, Findings of Fact, Conclusions of Law and Order (June 6 Order) in Case No. PU-22-194. The June 6 Order stipulates that MDU shall file the achieved return on equity for the prior year along with their annual report, that 70% of the earnings in excess of a 10% return on equity (ROE) shall be refunded to ratepayers and that MDU shall submit a refund plan which includes the amount and timing of the refund back to ratepayers.

On June 5, 2024, the Commission issued a Notice of Opportunity for Hearing, which provided until July 19, 2024, for receiving comments and hearing requests. No response was received. The notice identified the issue to be considered in this matter is whether the proposed credit is just and reasonable.

On July 23, 2024, the Commission discussed this matter with MDU during an informal.

MDU filed its 2023 Electric Annual Report in case PU-24-176, showing earnings of \$61.7 million (MM) on a rate base of \$746.5MM for a return on equity of 11.889%. This includes a \$4.5MM reserve for earnings sharing resulting in total earnings (excluding the reserve) of \$65.1 or 12.797%, which exceeds the 10% earnings threshold. This results in an earnings sharing refund total of \$4,852,253 for the period from July 1, 2023 (PU-22-194 start date for new rates) to December 31, 2023.

MDU proposed two methods to refund the overearnings. This included a direct refund to customers or applying the balance to the Lewis & Clark Unit I and Heskett Units I & II decommissioning regulatory asset. The direct refund to customers would be over a two-month period and would result in a reduction to customers' bills. The reduction of the regulatory asset would maintain the current amortization and would not result in an immediate refund but would shorten the life of that asset by approximately eleven months. Staff subsequently requested an alternative method to the reduction in the regulatory asset where the life would remain the same, but the amortization would be lower,

reflecting the reduction in the regulatory asset rate base and which would require MDU to file for a change in the tariff to reflect the change in the amortization rate.

These three methods are listed below. Essentially, by delaying the refund, the customer earns the MDU rate of return on the funds. Thus, the direct refund has the lowest value because it returns the entire balance immediately. The Lewis & Clark and Heskett Decommissioning Life Reduction has the greatest value but doesn't reduce customer bills until 2030. The Lewis & Clark and Heskett Decommissioning Rate reduction comes down between the two methods and the value is almost exactly halfway between the 1st methods. This method also returns \$4.44 per year.

Refund Method	Total Refund (Millions)	1st Yr Savings
Direct Refund	\$ 4.85	\$24.62
L&C/ Heskett Reduce Rate	\$ 6.07	\$4.44
L&C/ Heskett Reduce Life	\$ 7.30	\$0.00

Based upon the analysis of these three methodologies, Staff recommends the Commission adopt the method that applies the balance against the Lewis & Clark/ Heskett decommissioning asset base and reduces the annual amortization.

Cc Travis Jacobson- Montana-Dakota Utilities