



UTILITIES CO.

A Subsidiary of MDU Resources Group, Inc.

400 North Fourth Street  
Bismarck, ND 58501  
701-222-7900

August 3, 2022

Ms. Patricia Van Gerpen  
Executive Director  
South Dakota Public Utilities Commission  
State Capital Building  
500 East Capitol Ave.  
Pierre, SD 57501

Re: Request for Waiver of Fuel and  
Purchase Power Adjustment Rate  
58  
Docket No. EL22-\_\_\_\_

Montana-Dakota Utilities Co. (Montana-Dakota) herewith electronically files a request for a waiver of the Fuel and Purchased Power Adjustment Rate 58 (FPPA) tariff to allow the Company to retain the Production Tax Credits (PTC) from the repowering of Diamond Willow Wind Phase 1.

In Montana-Dakota's most recent rate case (Docket No. EL15-024), the South Dakota Public Utilities Commission (Commission) approved the Company's FPPA which was updated with a provision to include the PTCs associated with the Company's Diamond Willow and Cedar Hills wind facilities. At that time, the assets for those two facilities were first included in rate base, along with the operating expenses, ultimately becoming a part of the overall revenue requirement recovered from customers through base rates. The PTCs for both facilities have since expired; therefore, no PTCs are currently included in the FPPA. Upon the conclusion of the proceeding in that rate case, Montana-Dakota also implemented an Infrastructure Rider (IR) Rate 56 that included the assets and expenses associated with the Thunder Spirit wind facility. The PTCs generated from that facility are included in the IR rather than the FPPA.

Montana-Dakota is currently in the process of repowering Diamond Willow Wind Phase 1 which consists of 13 turbines and is located near Baker, Montana. The repower of Phase 1 is expected to be completed in late 2022 and is eligible for PTCs at 80% of the PTC value for a period of ten years.

The Diamond Willow Repower is mainly focused on replacing generators, gearboxes, and refurbishing or replacing blades. The turbines subject to the repowering efforts have been in service for over 15 years and are no longer

eligible for PTCs in the current configuration. The repowering process will marginally increase the overall generation from the turbines (via an increased capacity factor) and thus will lower fuel costs to customers which will be passed through the FPPA. Additionally, the repower project is forecasted to minimize many standard maintenance items which would normally appear on turbines of this age. Finally, as previously noted, the project allows this facility to requalify for PTCs for an additional ten-year period.

Montana-Dakota's Fuel and Purchased Power Adjustment Rate 58 Section 3.b.4. states that the adjustment should reflect the Company's fuel and purchased power costs, "Less Project Tax Credits (PTC) adjusted for the effect of income tax". Therefore, Montana-Dakota requests that the South Dakota Public Utilities Commission (Commission) issue a waiver from this tariff requirement for Diamond Willow Wind Phase 1. This waiver is necessary as Montana-Dakota is not including the costs associated with the repower in current base rates or the Infrastructure Rider (IR) Rate 56. Rather, the investment (and the associated risk of recovery) will not be included in rate base until the next rate case and is borne by the Company and thus the PTCs should not also be applied to the FPPA. Finally, Montana-Dakota's return on equity in South Dakota is significantly below the return authorized in Docket No. EL15-024. The Company does not anticipate that this project will materially change the current return on equity in the near term. The Company currently plans to file a general rate case during the second quarter of 2023. At that time, the treatment of PTCs can be readdressed if the Commission were to grant the Company's request in this docket.

The total cost of the repower of Diamond Willow Wind Phase 1 is estimated to be \$16.6 million and the portion allocated to South Dakota is approximately \$789,000 or about 4.75 percent. The anticipated PTCs to be generated by the facility during the 10-year life as reflected in the Company's financial modeling is \$15.7 million and the portion allocated to South Dakota is approximately \$746,000, as grossed up for the effect of income taxes.

Exhibit A shows the revenue requirement and cost per kWh with and without the repower for the Company's Integrated System and allocated to South Dakota. It also shows that repowering Diamond Willow Wind Phase 1 results in an average cost of 0.758 cents per kWh, while customers would pay average of 1.051 cents per kWh if Montana-Dakota did not repower. This is primarily due to:

- The repower qualifies for PTC revenue at 80% of the PTC value which largely offsets the capital investment associated with the repower;
- The repower provides for marginal increases the capacity factor for the turbines. This model assumes a 7% increase in the capacity factor from the realized average capacity factor from 2015 through 2018;
- The repower will accelerate the replacement of various components; therefore, the no repower scenario is based on the assumption that capital investment will be required annually to replace similar components; and
- Absent the repower, Diamond Willow Wind's capacity factor is expected to decrease from that realized from 2015 through 2018.

Furthermore, the PTC, for the purposes of the Company's analysis in the financial models, was calculated based on the PTC value of 2.5 cents per kWh. Recently, the Internal Revenue Service announced that the 2022 PTC value is 2.6 cents per kWh further reducing the cost to customers.

Exhibit B shows a detailed projected 15-year revenue requirement and depreciation schedule for repowering Diamond Willow Phase 1. Page 1 represents a yearly Projected Income Statement for the 15-year life associated with this project. Page 2 represents the depreciation schedule of the repower based on the modeled costs and the currently approved depreciation rate for this type of asset.

Exhibit C shows a detailed projected 15-year revenue requirement and depreciation schedule associated with not repowering Diamond Willow Phase 1. Page 1 represents a yearly Projected Income Statement for the remaining 15 year life associated with this project. Page 2 represents the depreciation schedule of the maintenance expenses forecasted for the turbines and the currently approved depreciation rate for this type of asset.

In summary, Montana-Dakota respectfully requests the Commission grant the Company's request as outlined above. Repowering Diamond Willow Wind has been shown to be the most economical decision for the Company's customers. Because the timing of the repower does not match with the filing of a general rate case, allowing Montana-Dakota to retain the PTCs will allow the investment that will provide an ultimate benefit to customers in the long term. Allowing the retention of the PTCs will not harm customers in the short term and can be addressed more fully in the Company's upcoming general rate case.

If you have any questions regarding this matter, please contact me at (701) 222-7855 or [travis.jacobson@mdu.com](mailto:travis.jacobson@mdu.com).

Sincerely,

*/s/ Travis R. Jacobson*

Travis R. Jacobson  
Director of Regulatory Affairs