

MONTANA-DAKOTA UTILITIES CO.

A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-10-____

Direct Testimony
of
David L. Goodin

1 **Q. Please state your name and business address.**

2 A. My name is David L. Goodin and my business address is 400 North
3 Fourth Street, Bismarck, North Dakota 58501.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am the President and Chief Executive Officer (CEO) of Montana-
6 Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources
7 Group, Inc. and Great Plains Natural Gas Co. (Great Plains), also a
8 Division of MDU Resources Group, Inc. I am also the President and CEO
9 of Cascade Natural Gas Corporation and Intermountain Gas Company;
10 subsidiaries of MDU Resources Group, Inc..

11 **Q. Please describe your duties and responsibilities with Montana-**
12 **Dakota.**

13 A. I have executive responsibility for the development, coordination,
14 and implementation of strategies and policies relative to operations of the
15 above mentioned Companies.

1 **Q. Please outline your educational and professional background.**

2 A. I hold a Bachelor's Degree in Electrical and Electronics Engineering
3 from North Dakota State University and a Masters of Business
4 Administration Degree from the University of North Dakota. I also
5 completed the Advanced Management Program at Harvard University in
6 2006. My work experience includes five years as a field Electrical
7 Engineer; five years as division Electric Superintendent overseeing crews,
8 servicepersons, and office personnel in constructing and maintaining
9 Montana-Dakota's electric system; six years overseeing its Electric
10 System Operations Dispatch Center, and in 2000 I became the Vice
11 President – Operations for Montana-Dakota. In January 2007 I was
12 promoted to Executive Vice President of Operations and Acquisitions and
13 in July 2007 became President of Cascade Natural Gas Company, a
14 subsidiary of MDU Resources Group. I was additionally named President
15 of Montana-Dakota and Great Plains in March 2008 and President of
16 Intermountain Gas Company in October 2008. I am a Professional
17 Engineer registered in North Dakota.

18 **Q. Have you testified before this Commission and other state regulatory**
19 **bodies?**

20 A. Yes. I have previously testified before the Public Service
21 Commissions of Montana and Wyoming and the Washington Utilities and
22 Transportation Commission and submitted written testimony in
23 proceedings before the Oregon Public Utilities Commission.

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to provide an overview of our North
3 Dakota electric operations, explain our request for an electric rate increase
4 and discuss the policies and reasons underlying the major aspects of the
5 request. I will also address the request for an interim increase and identify
6 the Company witnesses in this proceeding.

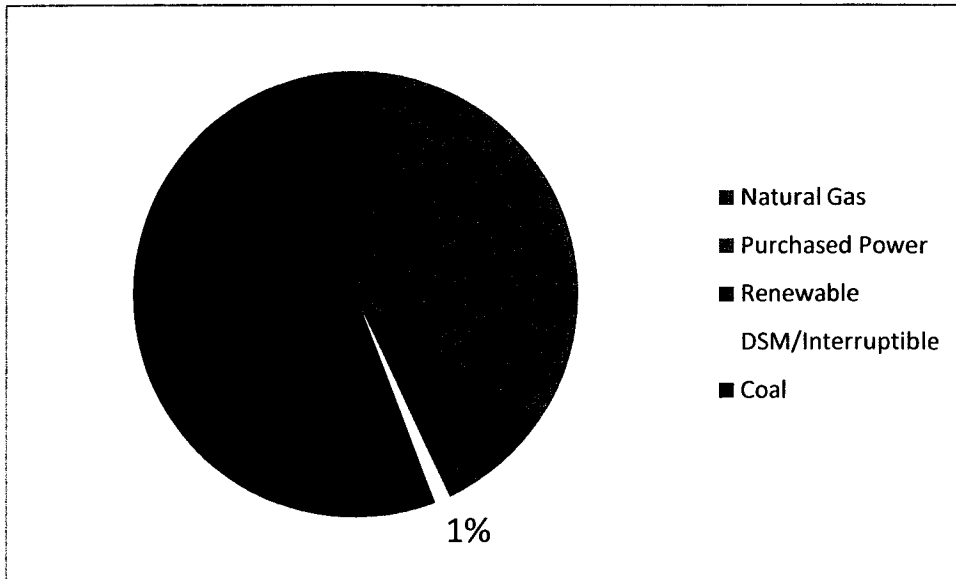
7 **Q. Would you provide a summary of Montana-Dakota's electric
8 operations in North Dakota?**

9 A. Montana-Dakota's electric system consists of generation,
10 transmission, distribution and general plant facilities serving approximately
11 75,350 customers in 114 communities in North Dakota. The Company's
12 North Dakota electric service area is divided into two operating regions
13 with regional offices located in Bismarck and Dickinson. In addition, there
14 are a number of district offices located in communities throughout the
15 state. As of December 31, 2009, the Company had 498 full and part time
16 employees who live and work throughout our North Dakota electric and
17 gas service area.

18 **Q. Would you describe Montana-Dakota's interconnected electric
19 system.**

20 A. Through its interconnected electric system, Montana-Dakota serves
21 approximately 108,000 retail customers in portions of North Dakota,
22 Montana, and South Dakota. The Company's current capacity mix is as
23 shown below including the addition of the 19.5 MW Cedar Hill wind

1 resource located in North Dakota and the 10.5 MW addition at the
2 Diamond Willow site located in Montana as described in the Integrated
3 Resource Plan filed with the Commission on July 1, 2009.



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5 **Q. Mr. Goodin, did you authorize the filing of the rate application in this**
6 **proceeding?**

7 A. Yes, I did.

8 **Q. Why has Montana-Dakota filed this application for an electric rate**
9 **increase?**

10 A. Montana-Dakota is requesting an increase in its general electric
11 rates at this time because our current rates do not reflect the cost of
12 providing electric service to our North Dakota customers.

13 **Q. What is the amount of the increase requested?**

14 A. As will be fully explained by other Company witnesses, the
15 Company is requesting a net electric rate increase of \$15,396,303 (a 14.0
16 percent increase over current rates) based on a projected 2010 test year

1 including the reductions associated with the Company's proposed change
2 in the mechanism for sharing wholesale sales margins with its customers.
3 The sharing mechanism, which will be discussed in greater detail by the
4 Company's witnesses, would share the actual net margins earned by the
5 Company from all actual wholesale sales transactions with its customers.

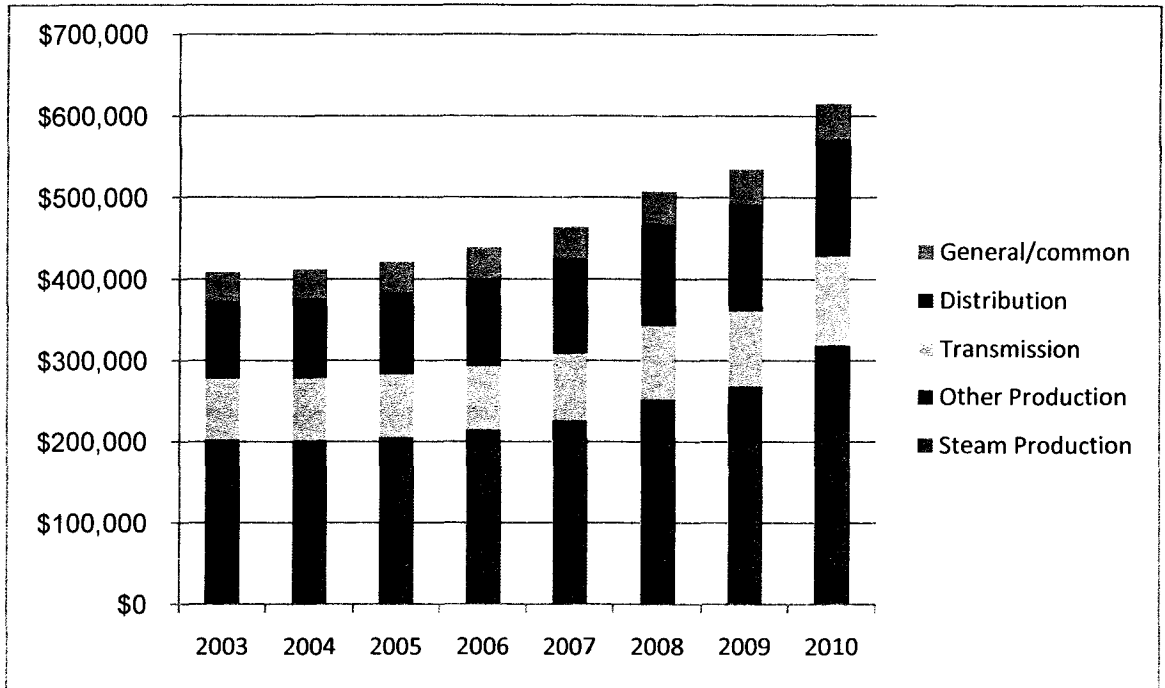
6 **Q. How will the requested increase affect the various classes of**
7 **customers?**

8 A. The Company is proposing to allocate the overall increase of 14%
9 to each class of customers with changes in the rate components for each
10 schedule that move prices closer to the cost of providing service as
11 explained more fully by Ms. Aberle.

12 **Q. What are the primary reasons that Montana-Dakota needs an**
13 **increase at this time?**

14 A. The primary reasons for the increase in rates are:

- 15 • The increased investment in facilities, including the expansion of wind
16 generation in the Cedar Hills and Diamond Willow projects and the
17 associated depreciation, operation and maintenance expenses and
18 taxes associated with the increase in investment. The table below
19 shows the investment in electric plant assigned and allocated to North
20 Dakota electric operations. The gross investment in North Dakota
21 electric operations has increased by over \$200 million, or
22 approximately 50 percent, from the end of 2003 to the projected 2010
23 levels included in this case.



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- The significant loss of wholesale sales margin in Montana-Dakota's service area. The total Company wholesale margin has decreased from \$11.8 million in 2003 to just over \$600,000 in 2009.

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- Recovery of the deferred generation costs incurred to acquire needed generation. The amounts in this case include the costs associated with the Big Stone II plant, the Lignite Vision 21 and Milton Young III plants. If resolution of a proposed alternate recovery mechanism is approved for the Big Stone II plant costs, those costs will be withdrawn from this case.

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11 Q.

When was the last electric general rate increase for Montana-

12

Dakota?

13 A

Montana-Dakota's electric rates were last increased in January

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2004 and reflected an increase in rates of 1.2 percent overall.

1 **Q. Would you please explain how Montana-Dakota has been able to**
2 **maintain its electric rates over the last six years?**

3 A. Montana-Dakota has worked hard to control costs. We have been
4 able to hold the line on our expenses by finding ways of operating our
5 business more efficiently and taking advantage of new technologies where
6 it makes economic sense to do so.

7 **Q. What is the Company doing to control costs?**

8 A. The Company continually looks for opportunities to improve
9 efficiencies and control costs. Montana-Dakota is currently participating in
10 a utility integration effort, along with the three other utilities within the MDU
11 Resources Group, Inc.'s utility group (Great Plains Natural Gas Co.,
12 Cascade Natural Gas Corporation and Intermountain Gas Company).
13 Through this effort, the four utilities will come together to pursue best
14 practices and employ technological advances in an effort to streamline
15 similar processes across all four utilities, while also addressing the current
16 economic uncertainties being experienced today.

17 **Q. What are some of the changes that have been identified to date from**
18 **this integration effort?**

19 A. A number of changes have already occurred or are in the process
20 of being implemented. Some of the major changes are:

- 21 • *Service center consolidation.* Today, we are in the process of
22 combining five separate call centers operated by Montana-
23 Dakota, Cascade and Intermountain into one service center,

1 located in Boise, Idaho. This combined center will be
2 responsible for all incoming customer calls for the four utilities
3 and expected to be fully operational by the fourth quarter of
4 2010. Montana-Dakota's experience proves that the service
5 quality attributed to well trained customer service
6 representatives (CSRs) is a higher priority than the location of
7 a CSR. Montana-Dakota's customer calls have been handled
8 by a centralized call center since 1999 after approximately 45
9 offices were closed.

10 • *Implementation of a central credit center.* The Bismarck call
11 center is transitioning to a centralized credit center for all four
12 utilities where credit representatives will be available to work
13 with customers to resolve credit problems and collection
14 issues in addition to working with Social Services, the Low
15 Income Energy Assistance Program and other energy
16 assistance agencies. The Bismarck Credit Center will also
17 operate as a back-up call center to the Boise Call Center
18 during high call times. The Bismarck Credit Center started
19 handling all credit and collection related calls for Montana-
20 Dakota customers in June 2009 and the transition is expected
21 to be completed by the fourth quarter of 2010.

22 • *Establishment of pay stations.* Pay stations were also
23 established throughout Montana-Dakota's service territory in

1 an effort to provide convenient bill payment options and
2 extended hours by using established Western Union vendors.
3 Through this arrangement, payments will be electronically
4 transmitted to Montana-Dakota, available for viewing by
5 Montana-Dakota personnel within an hour of when the
6 payment is made and posted to customer accounts by the
7 next business day. The Company continues to work with
8 established businesses throughout the Company's service
9 territory in order to expand the number of locations at which a
10 customer can pay her or his bill.

- 11 • *Work force reductions.* In addition to assessing the work
12 force requirements associated with the three changes
13 mentioned above, the Company continues to review all
14 aspects of the utility business to ensure Montana-Dakota is
15 operating as efficiently as possible. Work force reductions
16 are included in the revenue requirement.
- 17 • *Comparable benefits.* The integration of processes brings
18 with it the necessity to have comparable benefits among the
19 utility companies. Primary changes to the benefits structure
20 at Montana-Dakota included
 - 21 ▪ Freezing the pension plan to significantly reduce
22 future liability. The pension plan is applicable to

1 employees who commenced employment prior to
2 January 1, 2006.

- 3 ▪ Add a retirement contribution to the 401(k) for
4 employees in the frozen pension plan based on age
5 and ranging from 5 percent to 11.5 percent of base
6 pay
- 7 ▪ Changed the medical retiree plan to decrease future
8 liability for current employees. Retiree medical is no
9 longer offered to employees hired beginning January
10 1, 2010.
- 11 ▪ Added two holidays for Montana-Dakota employees
12 to bring consistency within the utility group and be in
13 line with other utilities.
- 14 ▪ Eliminated the employee discount for current
15 employees effective February 1, 2010.

16 All of these measures will provide comparable benefits across the
17 utility group and enable the Company to control its costs.

18 The Company has also refinanced essentially all of its long term
19 debt since 2006 and has lowered its embedded weighted average debt
20 cost from 8.766% at December 31, 2005 to a projected 6.845% at
21 December 31, 2010.

22 **Q. Why is Montana-Dakota investing in wind generation and other**
23 **facilities and requesting an increase for those facilities?**

1 A. The wind generation provides Montana-Dakota with diversity in its
2 generation portfolio and the timing allowing the Company to take
3 advantage of tax benefits and transmission availability for its customers
4 that may not be available in the future. Mr. Neigum discusses the wind
5 generation in more detail. The other investments in transmission facilities
6 are required in order to maintain reliability, accommodate customer growth
7 or to comply with environmental standards. Ms. Stomberg addresses
8 these investments in her testimony.

9 Montana-Dakota has also continued to invest in its distribution
10 facilities, including the implementation of the Automated Meter Reading
11 (AMR) system as well as distribution substations and transformers.

12 **Q. What return is Montana-Dakota requesting in this case?**

13 Montana-Dakota is requesting an overall return of 9.091 percent,
14 inclusive of a return on equity (ROE) of 11.5 percent. Dr. Gaske's
15 analysis indicates that a 12.0 percent ROE is fully justified and supported;
16 however, Montana-Dakota recognizes that the economic downturn has
17 affected its service area and accordingly is seeking the same return on
18 equity that was approved in its last rate proceeding, although less than
19 that recommended by Dr. Gaske.

20 **Q. Is Montana-Dakota seeking interim rate relief in this proceeding?**

21 A. Yes. Interim rate relief is being sought in this case consistent with
22 North Dakota Century Code 49-05-06. The amount of interim relief sought
23 is \$7,584,309 and consists of the projected 2010 revenue requirement

1 with certain adjustments based on Commission guidelines as described by
2 Ms. Mulkern.

3 **Q. Will you please identify the witnesses who will testify on behalf of**
4 **Montana-Dakota in this proceeding?**

5 A. Yes. Following is a list of witnesses that will provide testimony
6 and/or exhibits in support of the Company's application:

- 7 • Ms. Andrea L. Stomberg, Vice President – Electric Supply will
8 testify on the investments in facilities and the deferred generation.
- 9 • Dr. J. Stephen Gaske, Senior Vice President of Concentric Energy
10 Advisors, Inc., will testify regarding the appropriate cost of common
11 equity for Montana-Dakota's North Dakota electric operations.
- 12 • Mr. Garret Senger, Vice President - Controller and Chief
13 Accounting Officer for Montana-Dakota, will testify regarding the
14 overall cost of capital, capital structure and overall debt and
15 preferred equity costs.
- 16 • Mr. Darcy J. Neigum, System Operations and Planning Manager for
17 Montana-Dakota, will testify regarding the wind generation
18 expansion and the wholesale market changes.
- 19 • Ms. Stephanie L. Bosch, Regulatory Analyst Supervisor for
20 Montana-Dakota will present the projected sales volumes and
21 revenues,

1 • Ms. Rita A. Mulkern, Regulatory Analysis Manager for Montana-
2 Dakota, will testify regarding the total revenue requirement and the
3 interim revenue requirement necessary for North Dakota electric
4 operations.

5 • Ms. Tamie A. Aberle, Pricing and Tariff Manager for Montana-
6 Dakota, will testify on the rate design, the embedded class cost of
7 service study and proposed tariff changes.

8 **Q. Mr. Goodin, are the rates requested in this proceeding just and**
9 **reasonable?**

10 A. Yes. In my opinion, the proposed rates are just and reasonable as
11 they are reflective of the total costs being incurred by Montana-Dakota in
12 providing electric service to its customers. The proposed rates will provide
13 Montana-Dakota the opportunity to earn a fair and reasonable return on its
14 North Dakota electric operations.

15 **Q. Does this complete your direct testimony?**

16 A. Yes, it does.