EXHIBIT
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Introduction

Summary Testimony of George Mathai, CPA in Response to MDU Rebuttal Testimony

On behalf of the North Dakota Public Service Commission's Advocacy Staff I conducted the review of the Rate Increase Application of Montana –Dakota Utility, Case No. PU-10-124. My goal is to present to the Commission my audit findings that would enable the Commission to evaluate whether MDU's Revised Request of $11,518,000 increase is fair just and reasonable. Based on the Company evidence I reviewed, my conclusion is that the Company failed to justify the requested increase. There are still three major unresolved issues that have the potential monetary value ranging from Zero to $7.3 million.

These three major issues include Advocacy Staff's disallowance of MDU's Revenue Requirement Calculation for Wind Investments, 60% disallowance of MDU's Incentive and Bonus Pay amounting to $1.1million and $70,000 related to Board of Directors expense. My recommendations have not changed with respect to these issues.

Wind Related Investments and expenses

DRs: 50,51,52,53,54,58,61,74,75, 80,81,82,91, OS 2, OS 3

Let me state three major reasons for our recommendation:

1. The Company had great difficulty in identifying the total dollar amount applicable to Wind included in the current filing. There had been several Discovery Requests on this subject and we received differing answers for the same components in different Discovery Requests. What is filed even as late as last Friday, one business day before this Hearing, is brand new information on Wind related investments and expenses. We currently cannot quantify or know how much is really included in the current filing for wind related items.
2. The Company did not consider wind investment of approximately $115 million as big enough of an investment which required ADP from this Commission. Therefore the Commission or its Staff did not have an opportunity to scrutinize in detail the used and useful concept and the associated cost factors of these wind investments prior to the resources being built or as of this hearing. It is a fundamental ratemaking principle that the Company has the burden of Proof to justify every dollar that it requests through rates from the customers.
3. The Company has not established that the proposed wind projects are the least cost options for the energy needs of MDU. We have not been privy to any economic studies conducted by MDU, if they have done any at all. Staff needs additional time and reliable information to make an informed judgment concerning the level of Wind Investment that should be the responsibility of North Dakota rate payers. $73 million out of a $276 million Rate base requested by MDU is material in itself and whatever decision the Commission make on this issue has long-term consequences.

Based on the above reasons we are objecting the inclusion of Wind investments and expenses as a cost of service item in this case. In Staff's opinion, the Company has not yet provided the needed information nor established the need. Alternatively if the Commission decides to grant any portion of the recovery is appropriate, Advocacy Staff plead to the Commission to bifurcate the Wind portion from this proceeding and provide the opportunity for the parties to examine the actual issues rela~~ted~~ to cost and the level of inclusion, if any, to be paid for by the North Dakota customers.

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Incentive pay

DR-25,26,28B---- Regarding the Incentive pay, Staff is not against allowing a reasonable level as a part of the compensation in addition to the Base Salary, the Annual raises and the Employee Benefits. Staff is opposed to the level of what is requested by MDU. Our reasons to share the cost include:

1. Based on the review of Company provided information, contrary to what Mr. Goodin testified, the Benchmark Criteria Standards are heavily weighted in favor of profitability and financial performance. For example for midlevel management employees, it is 50% weight is Profitability and the rest of the 50% weight is for all other performance criteria including Safety and customer satisfaction and operational savings. For Non-management employees, the factors ranges from 4.5 value points to 7 value points, in which the financial weighing is 4. It is not equal weighing between financial, safety and customer relations as the Company witnesses claimed in their rebuttal testimony.
2. Staff is of the opinion that the Company's current salaries are at a reasonable level to the area even without Staff's recommended level of incentive pay.
3. Staff does not believe that employees remain with or leave a company, just how big the incentive pay is, as the Company witnesses were implying through their testimony. When employees choose an employment, they consider several known factors other than an unknown and non-quantifiable item of incentive pay. So MDU's argument that the incentive pays as a needed tool to retain employees is a stretched out argument.
4. Other Commissions have dealt with this issue of Incentive and Bonus Pay for several years and had taken positions ranging from complete exclusion to partial inclusion in different rate cases as a compromise position.

I take note of Mr. Goodin's testimony that MDU changed the Incentive Plan weighing in 2010. However MDU's Revenue Requirement had not been amended to reflect the new level of incentive pay. Additionally other utilities in North Dakota had put limit on their distribution of Incentive and Bonus pay even when their overall compensation was below median from other companies. Incentive pay out for MDU employees ranges from 6% to 30%. Staff requests the Commission to find the 60/40 split is the appropriate level of incentive pay to be included in the compensation package, in addition to the base pay, annual raises and other employee benefits.

Board of Directors Expenses

(DR- 35) Regarding the Board of Directors expenses, again, Staff is not against allowing a reasonable level of Board of Directors expenses as a part of the O&M. In my experience I have seen companies booking the investors and board of directors' expenses below the line and above the line for ratemaking purposes. I have recommended and accepted by commissions to exclude all investor related and Board of Directors expenses for rate making purposes. I thought it is fair to exclude such expenses completely from cost of service, since the BOD expenses are primarily responsible to the investors. However, my recent analysis made me to think that there is some secondary responsibility and benefits to the ratepayers from the good fiduciary responsibilities of the Board of Directors. So it is fair, just and reasonable to share such expenses between the shareholders and customers. Therefore the Advocacy Staff requests the Commission to accept our sharing approach in this matter.

GENERAL OBSERVATIONS AND RECOMMENDATIONS

There are three other recommendations I made to the Commission (1) regarding MDU's Minimum Standard Filing Requirements (MSFR) for rate change cases, (2) Accounting System and Jurisdictional

Allocation Process, and (3) Corporate Allocation Methodology/Affiliate Transactions. Advocacy Staff and MDU have reached some understanding to work together to resolve these issues as a part of the Settlement. I made the following comments and suggestions in my prefiled testimony with very positive objective that the operations of MDU will be more transparent and regulatory friendly which will be beneficial to all stakeholders of MDU.

Let me give a brief description of the issues the Advocacy Staff raised in my testimony.

1. **Meeting Minimum Standard Filing Requirements (MSFR) for Rate Case Filing and other Procedural Concerns.**

The Staff recommends to the Commission that it should establish through a Rulemaking, a better **Minimum Standard Filing Requirement (MSFR)** for utilities when they initiate a Rate Increase Filing. Staff's processing of MDU's Rate Increase Application PU-10-124 revealed this case could have been processed in a more timely and efficient way, if the filing itself was made to the Commission under a better MSFR. If the timeline was longer, the issues could have been fleshed out more thoroughly before the hearing. So the hearing could be conducted more effectively with reliable information.

2. **Evaluation of MDU's Accounting System and Jurisdictional Allocation Process**

Staff's processing of MDU's Rate Increase Application PU-10-124 revealed that an evaluation/study of MDU's accounting system should be conducted to understand its adherence to the FERC system of accounting and cost allocation process. Staff found it very difficult to trace amounts back to any original source document to create a reasonable and manageable audit trail.

During the processing of a Rate Increase Application, there is not enough time or resources to concentrate on such crucial and unique issues as a company's internal accounting process or detailed review of its jurisdictional allocation. Therefore we recommend the Commission order a Management Audit of MDU.

3. **Corporate Allocation Methodology/Affiliate Transactions**:

Similarly, Staff proposes that the Commission order a comprehensive review of MDU's Corporate Allocation Factor calculation methodology and its Affiliate Transactions. Such review is beneficial to MDU's North Dakota customers to insure they are not subsidizing any of the non-regulated or other-regulated utilities. Regarding the Corporate Allocation, MDU is using an equity based Corporate Allocation Factor. Traditional methodologies like Distrigas Methodology give broader assurance that established rates are fair, just, and reasonable and do not disproportionately allocate corporate costs to its utility operations. Staff recommends this issue be incorporated as a part of the Management Audit as suggested above.