

## MONTANA-DAKOTA UTILITIES CO.

A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-15-90

Rebuttal Testimony  
of  
Travis R. Jacobson

1 Q. **Would you please state your name and business address?**

2 A. Yes. My name is Travis R. Jacobson and my business address is  
3 400 North Fourth Street, Bismarck, North Dakota 58501.

4 Q. **What is your position with Montana-Dakota Utilities Co.?**

5 A. I am the Regulatory Analysis Manager for Montana-Dakota Utilities  
6 Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

7 Q. **Are you the same Travis R. Jacobson who filed direct testimony  
8 earlier in this proceeding?**

9 A. Yes, I am.

10 Q. **What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to address certain  
12 adjustments proposed by Mr. Victor Schock and address the comments by  
13 Mr. Mike Diller regarding the line loss factor and the monthly cost of gas  
14 filings. I am also sponsoring Exhibit No. \_\_\_\_ (TRJ-2).

15 Q. **On page 2 of Mr. Schock's testimony, he recommends reducing labor  
16 expense by \$143,000. Do you agree with his adjustment?**

1 A. No. Mr. Schock noted that any increase would be effective in May  
2 2015 and therefore prorated the recommended increase based on a factor  
3 of 7 of 12 months. The test period in this filing is a projected 2015 test  
4 year and therefore is a "current test year" as defined in N.D.C.C. § 49-05-  
5 04.1 (1)(b)(i.e. "any consecutive twelve-month period ending not later than  
6 twelve months after the date new schedules are filed"). All components of  
7 the revenue requirement for the test year, including revenue, operations  
8 and maintenance expenses, and rate base, are based on a projected  
9 calendar year. N.D.C.C. § 49-05-04.1(4) specifically allows for estimates  
10 of known and measurable changes to the current test year that occurred  
11 or are reasonably certain to occur during the test year or within twelve  
12 months from the date of filing. It would be an inappropriate application of  
13 the "current test year" to exclude an estimated salary increase expected to  
14 occur within twelve months of the rate filing. Exhibit TRJ-2 shows the  
15 Company's methodology and demonstrates the appropriateness of the  
16 proposed adjustment based on a full 3.5 percent increase. While the  
17 effective date of the salary increase may be an appropriate consideration  
18 in determining the extent of any refund of interim rate relief, consideration  
19 should also be given to offsetting cost increases that occurred after the  
20 last general rate case filing but prior to the effective date of the interim  
21 increase.

22 **Q. Does rejection of the labor adjustment effect other adjustments**  
23 **proposed by Mr. Schock?**

1 A. Yes. On page 3 of his testimony, he recommends reducing 401k  
2 expense by \$15,000 as a result of the reduction in labor. Since the labor  
3 adjustment is incorrect, the associated adjustment to 401k expense is also  
4 incorrect.

5 **Q. Are there additional adjustments to benefits? If so, do you agree**  
6 **with them?**

7 A. Mr. Schock did recommend additional adjustments to pension and  
8 post retirement expense as well as 401k expense. Each adjustment  
9 should be rejected as noted below.

10 The Company uses actuarially determined pension and post-  
11 retirement expense as prescribed by Generally Accepted Accounting  
12 Principles (GAAP) ASC 715-30 (pension) and ASC 715-60 (post-  
13 retirement). As Mr. Schock pointed out, the actuary takes into account  
14 many factors including both actual and estimated future earnings of the  
15 retirement trust accounts. These factors are included in the study  
16 because they are important components of current and future expense  
17 and help to match the expenses incurred to the proper period. This  
18 practice has been used in recent general rate requests and has been  
19 accepted by this Commission as well as all other Commissions under  
20 which Montana-Dakota operates. Mr. Schock has suggested the  
21 Company use \$100,000 as a value for pension expense and \$15,000 for  
22 post-retirement expense somewhat based on history. Historic results are  
23 one of the factors the actuary considers in estimating future pension and

1 post-retirement expense. Reliance only on historic results would not be  
2 appropriate and Mr. Schock has provided no basis to conclude that  
3 historic results would be more accurate than the actuarially determined  
4 amounts.

5 Mr. Schock also recommended a reduction to 401k expense of  
6 \$86,000 related to the Company's profit sharing plan. As a part of its Total  
7 Rewards Philosophy discussed in direct testimony by Ms. Anne Jones, the  
8 Company has focused its efforts to control the costs of wages and benefits  
9 by offering its employees a combination of base pay, variable (incentive)  
10 pay and employee benefits. The Total Rewards package is the  
11 methodology utilized to compare Montana-Dakota's pay/benefits with  
12 other utility companies. The 1 percent 401K profit sharing was put into  
13 place as a means to provide a competitive retirement benefit as Montana-  
14 Dakota completed the process to freeze Company pension plans to new  
15 entrants as part of the strategy to transition away from the defined pension  
16 plan. As with all incentive pay, an award is made only when the financial  
17 earnings target is met. The target is an earnings goal for the entire utility  
18 group across all four brands (Montana-Dakota, Great Plains, Cascade  
19 Natural Gas and Intermountain Gas), eight jurisdictions and encompasses  
20 both electric and gas operations. The 401K profit sharing incentive is just  
21 one component of total compensation and an important part of the  
22 Company's effort to remain competitive in today's labor market.  
23 Therefore, this adjustment should be rejected.

1 Q. **On page 4 of Mr. Schock's testimony, he recommends reducing**  
2 **regulatory commission expense. Do you agree with his adjustment?**

3 A. Mr. Schock has indicated the Company will be receiving a refund.  
4 The Company has not received a refund yet but would agree to reduce  
5 regulatory commission expense by \$50,000 if the refund amount is  
6 consistent with Mr. Schock's recommendation.

7 Q. **Did Mr. Schock have other changes? If so, do you agree with them?**

8 A. Yes. Mr. Schock noted that that the North Dakota Legislature  
9 approved a reduction in the State's corporate income tax rate subsequent  
10 to the date of the Company's general rate filing. Mr. Shock recommended  
11 a reduction in the revenue requirement as a result of this action. The  
12 Company agrees with this recommendation.

13 Mr. Schock also noted that insurance expense requested  
14 incorrectly included account reimbursements and was later reduced in a  
15 data request. The reduction was \$67,373 in Mr. Schock's testimony and  
16 the Company agrees with this recommendation.

17 Q. **Beginning on page 2 of Mr. Diller's testimony, he commented that it**  
18 **is not clear to him whether MDU is financially affected when actual**  
19 **line losses vary from the estimated 0.45 percent in this proceeding.**  
20 **Is there a financial impact resulting from line losses if they vary from**  
21 **0.45 percent?**

22 A. To the extent line losses vary from the requested 0.45 percent,  
23 there could be an impact to the North Dakota gas utility operating income

1           – positive or negative. The variance from the stated gas loss remains in  
2           the cost of gas reported by the Company and affects margin (retail sales  
3           revenue less cost of gas).

4                     The absence of a line loss factor would result in costs associated  
5           with actual losses to be deferred in the balancing account to be recovered  
6           in a future period rather than collecting them as they occur.

7                     The Company would agree to engage in further conversation  
8           regarding this issue or, if preferred, would agree to removal of the line loss  
9           calculation from the preparation of its cost of gas filing.

10   **Q.    On page 3 of Mr. Diller's testimony, he commented that the monthly  
11           cost of gas filings need to be improved. Do you agree?**

12   **A.            The monthly cost of gas filings have been presented in a way that  
13           has evolved over time and have met the needs of both the Company and  
14           the Commission in the past. All processes should be evaluated  
15           periodically to ensure appropriateness of the information and the  
16           Company would be agreeable to working with Commission staff to  
17           develop a more condensed and useful monthly report.**

18   **Q.    Does this complete your rebuttal testimony?**

19   **A.            Yes, it does.**

**MONTANA-DAKOTA UTILITIES CO.  
GAS UTILITY - NORTH DAKOTA  
LABOR EXPENSE EXAMPLE**

**Assumption:** An employee with an annual salary at the beginning of 2014 receives a 3.5% increase in May of each year.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
<b>2014</b>	6,000	6,000	6,000	6,000	6,210	6,210	6,210	6,210	6,210	6,210	6,210	6,210	73,680
<b>2015</b>	6,210	6,210	6,210	6,210	6,427	6,427	6,427	6,427	6,427	6,427	6,427	6,427	76,259

**Outcome:** Applying a 3.5% increase to the base year provides results that are consistent to the month over month.

2014	Percent Increase	2015
73,680	3.50%	76,259