

MONTANA-DAKOTA UTILITIES CO.

A Division of MDU Resources Group, Inc.

Before the North Dakota Public Service Commission

Case No. PU-16-____

Direct 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. Would you please describe your duties as Regulatory Analysis
8 Manager?**

9 A. I am responsible for the preparation of cost of service studies, fuel
10 cost adjustments, purchased gas cost adjustments, and gas tracking
11 adjustments in each of the jurisdictions in which Montana-Dakota
12 operates.

13 **Q. Would you please describe your education and professional
14 background?**

15 A. I graduated from Minot State University with a Bachelor of Science
16 degree in Accounting and I am a Certified Public Accountant (CPA). I
17 started my career with Montana-Dakota in 1999 as a financial analyst in

1 the Financial Reporting area and during my tenure with the Company
2 have held positions of increasing responsibility, including Supervisor,
3 Financial Reporting and Planning and Manager, Financial Reporting and
4 Planning before attaining my current position.

5 **Q. Have you testified in other proceedings before regulatory bodies?**

6 A. Yes. I have previously presented testimony before this
7 Commission, the Public Service Commissions of Montana and Wyoming
8 and the Public Utilities Commissions of Minnesota and South Dakota.

9 **Q. Are you familiar with the books and records of Montana-Dakota and
10 the manner in which they are kept?**

11 A. Yes. Montana-Dakota's books and records are kept in accordance
12 with the Federal Energy Regulatory Commission (FERC) Uniform System
13 of Accounts (US of A).

14 **Q. What is the purpose of your testimony in this proceeding?**

15 A. The purpose of my testimony is to present the per books cost of
16 service for the twelve months ended December 31, 2015 for North Dakota
17 electric operations, the projected cost of service for 2016 and 2017, the
18 calculation of the revenue deficiency for base rates, the calculation of the
19 revenue deficiency for the Renewable Resource Cost Adjustment, the
20 calculation of the revenue necessary to recover transmission service
21 charges under the Transmission Cost Adjustment (TCA), and the
22 calculation of the revenue requirement underlying the interim request.

23 **Q. What statements, schedules and exhibits are you sponsoring?**

1 A. I am sponsoring Statements A through C, Statements E through L,
2 the calculation of the additional revenue requirement presented in Exhibit
3 No.__(TRJ-1), the interim revenue requirement presented in Exhibit
4 No.__(TRJ-2) and the proposed Rate 58 Fuel and Purchased Power
5 Adjustment presented in Exhibit No.__(TRJ-3).

6 **Q. Were these statements and exhibits prepared by you or under your**
7 **direct supervision?**

8 A. Yes, they were.

9 **Revenue Requirement**

10 **Q. What were the results of North Dakota electric operations for 2015?**

11 A. Statement J, pages 1 and 2 show the per books income statement
12 and rate base for the total Company and for the North Dakota electric
13 operations for 2015. As shown on page 1, North Dakota electric
14 operations had a return on average rate base of 5.955 percent for the
15 twelve months ended December 31, 2015. The details for each line item,
16 e.g. sales revenue, other revenue, etc., are included in the referenced
17 Statements. The per books information presented on Statement J, pages
18 1 and 2 includes total electric operations, including all revenues, expenses
19 and rate base items for which the Company is receiving recovery through
20 rates approved in its last general rate case as well as all revenues
21 received through the transmission, environmental, generation and
22 renewable riders.

23 **Q. How was the per books cost of service allocated to North Dakota?**

1 A. The Company utilizes a jurisdictional accounting system that
2 directly assigns and/or allocates every item of revenue, expense and rate
3 base to the jurisdictions as part of the regular accounting process on a
4 monthly basis. The allocation methods and procedures are the same as
5 those that have previously been used in Commission proceedings and are
6 based on the principle of assigning and/or allocating costs to the cost
7 causer.

8 **Q. What test period are you using to determine the revenue**
9 **requirement?**

10 A. The revenue requirement is based on a projected average 2017
11 test period. As stated by Ms. Kivisto, the primary reason for the increase
12 is due to the investment in facilities placed in service, along with the
13 associated expenses, since the Company's last general rate case in 2010
14 which were not included in base rates and have not been placed in the
15 previously mentioned riders. The Company has also seen an increase in
16 operation and maintenance expenses over that same time frame.

17 Montana-Dakota is using a future test year in accordance with
18 North Dakota Century Code §49-05-04.1.

19 **Q. Would you describe the development of the projected cost of service**
20 **for 2016 and 2017?**

21 A. The projected 2016 and 2017 cost of service is presented in
22 Statement K, which contains all of the schedules supporting the income
23 statement, and Statement L, which contains all of the schedules

1 supporting the rate base. The revenues and expenses reflect the annual
2 level expected when the new rates become effective. Likewise, the rate
3 base reflects average 2016 and 2017 plant and related balances.

4 **Q. Would you provide background on current rates and how they are**
5 **presented for per books 2015?**

6 A. Yes. Montana-Dakota's last general electric rate case was Docket
7 No. PU-10-124 which was filed on April 19, 2010 with final rates effective
8 on July 22, 2011. Since that time, Montana-Dakota has implemented four
9 riders, specifically the Renewable Resource Cost Adjustment, the
10 Generation Resource Recovery Rider, the Environmental Cost Recovery
11 Rider, and the Transmission Cost Adjustment, to recover costs not
12 reflected in rates authorized in PU-10-124. The 2015 per books
13 information is inclusive of the Company's riders and is summarized on
14 Statement K, page 1.

15 **Q. Would you provide a history of each rider discussed above?**

16 A. Yes. The Renewable Resource Cost Adjustment (Renewable Rider)
17 was authorized effective January 7, 2016 in Case No. PU-15-704 and
18 recovers costs associated with renewable generation resource
19 modifications or additions approved by the Commission, but not recovered
20 through retail rates. At this time, the 107.5 MW Thunder Spirit wind
21 facility that went on-line in December 2015 is recovered through the
22 Renewable Rider.

1 The Generation Resource Recovery Rider (Resource Recovery
2 Rider) was authorized effective January 6, 2015 and recovers the costs of
3 generation resources approved by the Commission but not included in
4 retail rates. The latest update to the Resource Recovery Rider was
5 effective March 15, 2016 in Case No. PU-15-703. The rates authorized in
6 the Resource Recovery Rider in Case No. PU-15-703 included a true-up
7 to the Heskett III revenue requirement initially approved to be effective
8 January 9, 2015 in Case No. PU-14-109 and the addition of the
9 Reciprocating Internal Combustion Engines (RICE) units co-located with
10 the Lewis & Clark Generating Station.

11 The Environmental Cost Recovery Rider was initiated on January
12 15, 2014 and recovers the costs incurred by the Company in complying
13 with federal and state environmental mandates determined to be eligible
14 for recovery under NDCC 49-05-04.2. The latest change to the
15 Environmental Rider was effective July 1, 2015 in Case No. PU-15-143 at
16 which time construction work in progress associated with the Air Quality
17 Control System (AQCS) project at the Big Stone Generating Station was
18 updated and the Mercury and Air Toxic Standards (MATS) project at the
19 Lewis & Clark Generating Station that went into service in December 2015
20 was included in the rider. As more fully described by Company witness
21 Mr. Alan Welte, the AQCS project at the Big Stone Generation Station is
22 complete and was placed into service in December 2015.

1 The Transmission Cost Adjustment (TCA) was initiated on June 1,
2 2012 and recovers the net balance of the capital, operating costs and
3 revenue credits of Montana-Dakota's transmission related expenses and
4 revenues determined to be eligible for recovery in accordance with 49-05-
5 04.3 NDCC. The latest change to the TCA was effective February 12,
6 2016 in Case No. PU-15-747. In that case, the Company included actual
7 transmission-related costs for the twelve months ended August 31, 2015
8 and projected costs through December 31, 2016 for recovery through the
9 TCA. Montana-Dakota included two transmission projects for recovery
10 under the TCA approved in Case No. PU-15-747: 1) The Kenmare to
11 Lignite 115 kV transmission line built for reliability purposes and to serve
12 load growth in Burke and Divide counties; and 2) The Little Muddy 60 kV
13 double circuit line built to create a looped transmission system around
14 Williston, North Dakota to increase reliability and load serving capability. A
15 substation was also built to connect the double circuit line to the 115 kV
16 transmission system northeast of Williston. In addition to the transmission
17 projects, MISO related transmission charges and credits were included in
18 the TCA to the extent the charges and credits were in excess of the
19 amount included in base rates in the last general electric rate case.

20

21 **Q. Would you now describe the proposed changes to each of the riders**
22 **just discussed?**

1 Yes. The Company is proposing to move the other two wind
2 projects that are currently being recovered in base electric retail rates, the
3 Diamond Willow wind facility and the Cedar Hills wind facility, to the
4 Renewable Rider for cost recovery upon the conclusion of this case.
5 Currently only Thunder Spirit is included so this will result in all wind
6 facilities being recovered through the Renewable Rider. A full revenue
7 requirement has been projected to include the Thunder Spirit, Diamond
8 Willow and Cedar Hills wind facilities and the expenses associated with
9 each facility, including production tax credits (PTCs). The overall cost of
10 service is presented in Statement J, page 4. Throughout Statement K,
11 each item on the income statement will be presented in detail with a clear
12 demonstration of the level of revenue and expense which was
13 experienced and included in actual 2015 data. Statement L-2 will present
14 all rate base items applicable to the renewable (wind) rider, including per
15 books 2015. The Company is proposing to make a change in the
16 development of the rate base in this rider from an average monthly
17 balance to a beginning and ending period balance and will be discussed in
18 more detail in my testimony supporting Statement L-2.

19 The Company is proposing to include Heskett III and RICE,
20 currently recovered through the Resource Recovery Rider, in the base
21 retail electric rates which will result in no charge applicable under the
22 Resource Recovery Rider at the time a final order is issued in this case.

1 Regarding the Environmental Cost Recovery, the Company is
2 proposing to include both of the projects currently included in this rider in
3 base retail electric rates, which will result in no charge applicable under
4 the Environmental Cost Recovery Rider at the time a final order is issued
5 in this case.

6 Finally, Montana-Dakota is proposing to recover all MISO related
7 transmission expense and credits through the TCA along with the addition
8 of Southwest Power Pool (SPP) related transmission expenses and
9 credits. The Company's proposal will result in no transmission service
10 expense or credits in base rates. Cost recovery for the two transmission
11 projects noted above has been moved into the base retail rates as part of
12 this request and transmission service expense and credits currently
13 recovered in base rates will be moved to the TCA. FERC assessment
14 fees received through MISO and SPP, which have not previously been
15 recovered through this mechanism, are proposed to be moved from base
16 rates to the TCA as well.

17 The overall cost of service for the Transmission Cost Adjustment is
18 presented in Statement J, page 5. Throughout Statement K, each item on
19 the income statement will be presented in detail with a clear
20 demonstration of the level of revenue and expense which was
21 experienced and included in actual 2015 data. Again, the Company is not
22 proposing to include rate base items at this time.

1 Q. **Would you summarize the development of the projected cost of**
2 **service for 2016 and 2017?**

3 A. Statement K, page 1 presents the projected cost of service for 2016
4 and 2017 for base rates with the generation and environmental riders, as
5 well as the assets formerly included in the transmission tracker, and
6 Statement L-1 presents the rate base for the same. Statement K, page 2
7 presents the cost of service for 2016 and 2017 for the renewable (wind)
8 rider and Statement L-2 presents the rate base for the same. Finally,
9 Statement K, page 3 presents the projected cost of service for the
10 transmission rider.

11 **Income Statement**

12 Q. **Would you describe the development of the projected revenues and**
13 **expenses contained in Statement K?**

14 A. Revenue was developed for inclusion in base rates, the renewable
15 rider (wind) and the transmission rider. Each will be discussed individually.

16 **Base Rates:** The projected base revenues for 2016 and 2017 are
17 summarized on Statement K, page 4. The retail sales revenues reflect
18 projected volumes at current rates, including the environmental and
19 generation rider revenue, again at current rates, and are shown in more
20 detail on page 5.

21 The Company experienced a small amount of sales for resale
22 revenue during 2015. While the addition of the Thunder Spirit wind facility
23 is expected to increase the sales for resale revenue received, Montana-

1 Dakota continues to propose that revenue from sales for resale offset the
2 costs included in the fuel and purchased power adjustment and, therefore,
3 no projection has been included.

4 Other operating revenues are projected to decrease as detailed on
5 page 11. Revenue from both the power interchange service agreement
6 and the joint use agreement with Basin Electric Power Cooperative
7 (Basin) ceased during 2015 upon their joining the SPP. Rent from
8 property decreased due to the Company's elimination of housing
9 assistance to employees in certain locations as housing has become more
10 readily available at more reasonable rates in those locations. Company
11 owned housing units have been disposed of and will be discussed later in
12 my testimony. The cost of service charged to MDU Resources Group, Inc.
13 subsidiaries was updated to reflect current corporate cross charges and
14 Montana-Dakota's current investment level. The Company continues to
15 propose that revenue from the sale of renewable energy credits (RECs)
16 offset the costs included in the fuel and purchased power adjustment and,
17 therefore, are excluded from Miscellaneous Revenue.

18 Late payment revenues were projected for 2016 and 2017 based
19 on the 2015 ratio of late payment revenue to retail sales revenue of 0.12
20 percent applied to projected 2016-2017 retail sales revenue including the
21 projected revenue from the renewable and transmission riders.

1 **Renewable (wind) rider:** The retail sales revenue included in the
2 renewable rider is based on projected volumes at the current rates and is
3 shown on page 6.

4 **Transmission rider:** The retail sales revenue included in the
5 transmission rider is based on projected volumes at the current rates and
6 is also shown on page 6. In addition, miscellaneous revenue received
7 through MISO, SPP and Basin is presented on page 12. Montana-Dakota
8 receives revenue from others for use of its ownership of transmission
9 assets. These revenues are included in the transmission rider as an offset
10 to transmission expense as discussed later in my testimony.

11 **Q. Have you updated the fuel and purchased power costs?**

12 A. Yes. The fuel and purchased power cost adjustment has been
13 included on Statement K, page 22. The Company's dispatching software
14 has been updated to model generation by plant based on the projected
15 sales adjusted for losses to represent total generation and power
16 purchase requirements and has been updated to reflect projected cost
17 assumptions and purchased power prices. The fuel and purchased power
18 cost adjustment has been computed in total and has been allocated to
19 both primary and secondary sales classes for the purposes of determining
20 the recovery in revenue on a per unit basis.

21 **Q. Have you made any changes to the fuel and purchased power costs**
22 **and if so would you describe?**

1 A. Yes, the Company is proposing to update the base fuel and
2 purchased power cost, again in both primary and secondary classes, to
3 reflect current cost projections and other changes that have taken place
4 since the last general rate case. The changes referenced include additions
5 to the generation fleet, the level of purchased power, and the amount of
6 purchased capacity as well as current MISO market administration
7 charges and current pipeline reservation charges related to Heskett III and
8 RICE gas turbines.

9 In addition to updating currently recovered expenses, Montana-
10 Dakota is proposing to recover emissions controls costs necessary to
11 comply with the Federal Environmental Protection Agency's (EPA) MATS
12 Rules through the fuel and purchased power adjustment mechanism. The
13 emissions controls costs are associated with the use of reagents to reduce
14 mercury emissions, and also discussed in the testimony of Alan L. Welte.
15 Sand, along with limestone, is used to reduce sulfur dioxide emissions at
16 Heskett Unit 2 . Reagent expenses are being incurred at Big Stone
17 Station subsequent to the completion of the AQCS project and are also
18 required at the Lewis & Clark Station and the RICE units, both located
19 near Sidney, Montana as well as the Coyote Station, located near Beulah,
20 North Dakota. Montana-Dakota's other generating facilities do not
21 currently require the use of reagents to comply with the MATS rule. The
22 quantity of reagents and sand at the generating facilities fluctuates directly
23 in relation to the operation of the facilities, similar to fuel costs. The

1 majority of these charges are relatively new costs to the Company and the
2 incurrence of these costs is necessary to meet newly implemented
3 emissions rules. Montana-Dakota is proposing to reclassify the existing
4 reagent costs from other operation and maintenance expenses.

5 Previously, reagent costs were a component of other O&M costs and this
6 proposed change results in a shift in recovery from O&M to Fuel. The
7 projected fuel & purchased power costs, with proposed changes above,
8 have been used in the calculation of retail sales revenue discussed earlier.

9 The proposed Rate 58 Fuel and Purchased Power Adjustment tariff
10 is included as Exhibit No. ____ (TRJ-3) and is also included in the
11 Company's Application, Appendix B.

12 **Q. Would you describe the development of the other operation and**
13 **maintenance expenses?**

14 A. Yes. The projected 2016 and 2017 operation and maintenance
15 (O&M) expenses are summarized on Statement K, pages 13 through 21,
16 with the supporting detail provided on pages 22 through 40.

17 **Q. Would you describe the development of the projected other O&M**
18 **expense?**

19 A. Yes. O&M expenses were reviewed and projected by resource, or
20 cost category, on a North Dakota only basis where appropriate and others
21 on a total Company basis. Montana-Dakota developed the O&M expenses
22 for 2016 by reviewing per books data and other current information, as
23 well as discussions with operations personnel to determine the best

1 information for 2016. 2017 was extrapolated based on 2016 projections.
2 Similar to the projected 2016 and 2017 revenue, O&M expenses were
3 developed individually for base rates, the renewable rider (wind) and the
4 transmission rider, as applicable. Certain resources may have only base
5 rate impacts whereas others may affect all three categories. Each will be
6 discussed individually.

7 **Q. Would you describe the development of the labor and benefits**
8 **expense?**

9 A. Yes. Labor expense, inclusive of all resources (i.e. straight and
10 premium time, incentive, vacation, etc.), is shown on page 23, with actual
11 labor expense for the twelve months ended December 31, 2015 used as
12 the starting point. Labor is also a component of the renewable (wind)
13 tracker. As such, the per books 2015 labor is shown in total and as
14 applicable to base rates and the renewable (wind) tracker, and each was
15 developed on a stand-alone basis. In each instance where per books
16 information applies to more than one mechanism, the presentation will be
17 consistent.

18 **Base Rates:** The 2016 labor expense was calculated by increasing
19 2015 actual expense by a projected 6.64 percent. The 2016 increase was
20 calculated based on the actual labor increase for both union and non-
21 union employees during 2016 and an average planned level of incentives
22 for all employees. During the preparation of the labor adjustment, it was
23 determined that the transmission function labor expense was understated

1 due to an allocation error. Therefore, in the development of the projected
2 2016 expense, an increase in transmission labor of \$156,837 was
3 reflected prior to incorporating the labor increase described above. The
4 increase in labor from per books 2015 to projected 2016 reflects the
5 absence of incentive compensation during 2015 whereas projected 2016
6 reflects an average planned level of incentive. 2017 was adjusted to
7 reflect an average increase of 3.40 percent pursuant to a negotiated union
8 contract for bargaining unit employees and the expected increase for non-
9 bargaining unit employees to be effective in 2017.

10 **Renewable (Wind) Rider:** Thunder Spirit became commercially
11 operational at the end of 2015. Therefore, per books 2015 labor was not
12 reflective of an ongoing level of expense necessary to operate and
13 maintain Montana-Dakota's three wind generating facilities. In order to
14 determine an appropriate level of expense for 2016, the level of expense
15 incurred through June 2016 was annualized and includes the appropriate
16 level of salary for 2016 and also captures additional employees hired
17 during 2016. Incentive compensation expenses were added to the 2016
18 annualized labor to determine the total labor for 2016. 2017 was adjusted
19 by 3.4 percent in a manner consistent with base rate labor.

20 Benefits are a component of Administrative & General Expenses
21 and are shown on page 24. Benefits expense consists of medical/dental
22 insurance, pension, post-retirement, 401-K, workers' compensation and
23 other benefits (primarily disability insurance). Each of these items was

1 adjusted individually and base rates and the renewable (wind) rider were
2 considered separately as well.

3 **Base Rates:** 2016 medical and dental expense was adjusted to
4 reflect a premium increase of 4.8 percent which became effective in
5 January 2016. 2017 medical and dental expense were projected to
6 increase 16.3 percent based on shortfalls incurred during 2016 and
7 medical trend data available at the time the case was prepared.

8 Pension and post-retirement changes for 2016 and 2017 were
9 based on actuarial reports. The Company has implemented changes to
10 the pension and post-retirement plans in recent years to minimize ongoing
11 expenses. For example, changes include closing the pension plan to new
12 entrants and freezing benefits levels. While the fluctuations appear to be
13 significant on a percentage basis, the total change in expense is only
14 \$104,309 for both pension and post-retirement when comparing the per
15 books 2015 level to the 2017 projection.

16 401-K and other benefits expenses has been adjusted to reflect the
17 changes in straight-time labor for both 2016 and 2017. 401-K was also
18 adjusted by an additional 1 percent to reflect a plan change in the
19 matching amount of Company contributions into the employees' 401-K
20 accounts. Workers' compensation was based on the ratio of 2015
21 expense to 2015 labor.

22 **Renewable (Wind) Rider:** 2016 medical and dental expense was
23 determined based on a loading factor of 12.18 percent which was

1 determined as a ratio of total medical and dental costs compared to labor
2 and was used because of the change in the number of employees
3 supporting the wind facilities upon full operation of Thunder Spirit wind.
4 2017 medical and dental expense was computed on the same basis as
5 the base rates.

6 Pension and post-retirement were also developed on the same
7 basis as the base rates while 2016 401-K expense reflects 9 percent of
8 labor and consists of 5 percent of an in-lieu of pension contribution and 4
9 percent Company match. 2017 401-K expense was developed on the
10 same basis as base rates. Workers' compensation was based on the per
11 books 2015 ratio of workers' compensation expense to labor for wind
12 employees only and other benefits were based on the same ratio as base
13 rates. Projected 2017 for both workers' compensation and other benefits
14 were developed on the same basis as base rates as well.

15 **Q. Would you describe the other projected O&M expense items?**

16 A. Yes. The projected subcontract labor expense for 2016 and 2017
17 was developed for base rates, renewable (wind) rider and the
18 transmission rider and is shown on page 25.

19 **Base rates:** Subcontract labor was adjusted to reflect an average
20 projected inflation rate of 1.19 percent, except Administrative & General
21 expenses which were adjusted to reflect additional costs related to the
22 Company's aircraft and hangar as well as increases in rating agency fees,

1 both of which are based on actual 2016 information. Projected 2017
2 reflects an increase of 1.85 percent.

3 To determine the inflation projections for 2016 and 2017, the
4 Company computed an average of projected inflation estimates from the
5 following sources: Congressional Budget Office, Federal Reserve Bank of
6 Cleveland, Organization for Economic Cooperation and Development,
7 PriceWaterhouse Coopers (PWC), Federal Reserve Economic Data,
8 Economist Intelligence Unit, Statista, and the International Monetary Fund.

9 **Transmission Rider:** Transmission service expense included in
10 the subcontract labor resource has been adjusted to reflect projected the
11 2016 and 2017 level of expense for transmission service expected to be
12 incurred based on the level of sales included in the revenue projections.
13 Additional detail by MISO and SPP schedule can be found on page 26.

14 **Renewable (Wind) Rider:** Projected 2016 subcontract labor for
15 each wind facility was developed based on a three-year average of
16 subcontract labor for Diamond Willow and Cedar Hills and based on
17 expected subcontract labor obligations at Thunder Spirit. The primary
18 contract at Thunder Spirit is related to a maintenance service
19 arrangement.

20 Expenses associated with the Company's Big Stone and Coyote
21 generating stations are based on expected 2016 actual expenses. 2017
22 was adjusted to reflect an inflation adjustment of 1.85 percent. The per
23 books expense for both stations was not reflective of on-going expenses

1 due to the implementation of the AQCS project at Big Stone and an
2 extended reduced run time at Coyote because of a damaged pump.

3 Materials expense also impacts base rates and the renewable
4 (wind) rider.

5 **Base Rates:** The projected 2016 level of materials expense was
6 determined to remain at the per books 2015 level except distribution
7 materials which are expected to increase at 3.0 percent. Projected 2017
8 is expected to increase based on an average inflation of 1.85 percent,
9 except a rate of 3.0 percent will again be applied to the distribution
10 function.

11 **Renewable (Wind) Rider:** Materials expense for Diamond Willow
12 and Cedar Hills has been adjusted to reflect a three-year average of
13 expenses and Thunder Spirit has be adjusted to reflect the expected level
14 of materials for the first year of full operations. The majority of materials
15 are expected to be covered under the turbine supply agreement during
16 2016. 2017 has been adjusted to reflect an inflationary increase of 1.85
17 percent except Thunder Spirit was adjusted to reflect expected materials
18 expense.

19 Vehicles and work equipment expense reflects all expenses
20 associated with the Company's vehicles and equipment, such as
21 backhoes, skid steers and line trucks, including the costs of fuel,
22 insurance, maintenance and depreciation expense. The depreciation
23 expense on these items is charged to a clearing account (rather than to

1 depreciation expense), where it is then recorded in O&M expense or
2 capitalized as part of a project as the vehicle or work equipment is used.
3 The projected expense is updated based on the projected plant and the
4 depreciation rates in Statement L-1. An increase in projected 2016 and
5 projected 2017 vehicles and work equipment expense is exhibited for both
6 base rates and the renewable (wind) rider on page 29 and have been
7 computed using the same method.

8 The facilities charge expense in the transmission function has been
9 eliminated reflecting the removal of charges previously related to the joint
10 use agreement that ceased upon Basin becoming a member of the SPP.
11 The testimony of Mr. D. Neigum further discusses the impact of Basin's
12 membership in SPP. The Company will continue to have a small number
13 of facility use agreements on the distribution system and they are
14 expected to remain at the 2015 per books level.

15 Company consumption is the expense for electric and natural gas
16 consumption in Company owned buildings. The electric component is
17 projected to increase for 2016 and 2017 based on the proposed overall
18 retail sales revenue increase. The natural gas component is expected to
19 decrease by 17.74 percent in 2016 to reflect normalized volumes and
20 current rates. The decrease is primarily related to the lower level of
21 natural gas prices included in the purchased gas adjustment at this time.
22 Natural gas consumption is expected to remain constant for 2017.

1 Postage expense does affect both base rates and the renewable
2 (wind) rider. However, postage directly associated with customer billing
3 and included in the Customer Accounting function has been adjusted for
4 2016 or 2017 whereas the wind facility postage was not adjusted. 2016
5 reflects the annualized postage savings based on the year-end 2015 level
6 of customers utilizing the electronic billing option available subsequent to
7 the implementation of the Company's new customer information system. A
8 postage rate increase of 2.15 percent is reflected in the 2017 projected
9 Customer Accounting function postage expense.

10 Uncollectible accounts expense is based on the ratio of the three-
11 year average of net write-offs to retail sales revenue. This ratio was then
12 applied to the projected 2016 and 2017 sales revenues, including revenue
13 collected in all currently effective riders.

14 Advertising expense is shown on page 34. Promotional advertising
15 expense has been eliminated and informational and institutional
16 advertising are adjusted to exclude advertising that is not applicable to
17 North Dakota electric operations.

18 **Q. Would you please continue with your explanation of adjustments to**
19 **operation and maintenance expenses?**

20 **A.** Yes. Industry dues reflect the projected level of industry dues and
21 those dues that are not specifically applicable to North Dakota electric
22 operations have been eliminated.

1 Insurance expense reflects the current insurance level for 2016 and
2 has been adjusted to reflect an increase of 5.0 percent for 2017.

3 Regulatory Commission Expense, as shown on page 37, reflects a
4 three-year average of ongoing regulatory commission expense, the
5 expenses to be incurred in this filing, amortized over a three-year period,
6 and has been adjusted to reflect the expected level of FERC assessment
7 fees that are proposed to be collected through the transmission rider. This
8 is a change from the current approach of including these charges in the
9 base rates. FERC assessment fees are based on a volumetric basis
10 consistent with other transmission charges. Therefore, the Company
11 proposes that recovery through the transmission rider is appropriate.

12 Software maintenance has been adjusted to reflect the 2016 level
13 of expenses and has increased because of new software agreements as
14 well as existing software agreements being expensed rather than being
15 capitalized as the assets are now in service whereas they were previously
16 included in CWIP. 2017 has been adjusted to reflect inflation of 1.85
17 percent.

18 Annual easement expense in the production function has been
19 included in the renewable (wind) rider while all other easement expenses
20 will remain in the base rates. Annual easements for 2016 and 2017
21 included in base rates have been increased to reflect the forecast inflation
22 rates of 1.19 and 1.85 percent, respectively. The annual easements for

1 the renewable (wind) rider have been adjusted based on the easement
2 agreements for each wind facility.

3 The items adjusted individually above represent approximately 97
4 percent of total North Dakota electric O&M. The remaining items, which
5 make up approximately 3 percent of other O&M expense and shown on
6 page 40, were adjusted for the effects of projected inflation for 2016 and
7 2017 as well as changes in MDU Resources corporate governance costs
8 to reflect 2016 actual charges.

9 **Q. Would you describe the calculation of depreciation expense?**

10 A. Yes. Projected depreciation expense is summarized on Statement
11 K, page 44 for all assets to be included in base rates and page 45 for wind
12 related assets. The calculation of depreciation expense and associated
13 accumulated reserve for depreciation is shown on pages 46 through 49.
14 Depreciation expense is calculated on the average projected plant in
15 service. Montana-Dakota is proposing to use depreciation rates that were
16 developed in a depreciation study prepared by AUS Consultants at the
17 Company's request as of December 31, 2014. Certain depreciation rates
18 were agreed to by the Company throughout the settlement process in the
19 rate proceedings in Montana and South Dakota and differ from the
20 depreciation study. Montana-Dakota is proposing to use the settled rates
21 approved in those same states. Montana-Dakota has an integrated
22 electric system which includes North Dakota, South Dakota and Montana

1 and has proposed the rates to provide for consistent depreciation rates
2 across the entire integrated system.

3 Montana-Dakota has historically used a 20 year life for its wind
4 facilities, including the renewable (wind) rider in North Dakota. In the
5 settlements mentioned above, the Company has agreed to extend the
6 depreciable lives of wind facilities to 25 years, including Thunder Spirit and
7 the proposed revenue requirement for the renewable (wind) rider reflects
8 the change.

9 The depreciation rates are shown on Statement G, with a summary
10 of composite rates by function on page 2.

11 Two additional amortizations are also being proposed to be
12 collected through the depreciation expense line. Decommissioning of
13 power plants and an amortization of gains and losses related to the
14 disposal of office buildings and Company owned employee housing have
15 been reflected with various amortization lives. Each will be covered in
16 more detail in the respective rate base discussion.

17 **Q. How were taxes other than income projected?**

18 A. Projected taxes other than income are summarized on page 50 for
19 base rates and page 51 for the renewable (wind) rider. The methods for
20 determining taxes other than income are consistent between the base
21 rates and renewable (wind) rider and explained in further detail below.

22 Detail by type of tax is shown on pages 52 through 54. Ad valorem
23 taxes were calculated using the projected 2016 and 2017 plant in service

1 and applying an effective tax rate based on the ratio of 2015 ad valorem
2 taxes to average plant balances as of December 31, 2015 by function.
3 The effective tax rates noted above have been adjusted to reflect the 2016
4 Montana ad valorem tax increases as noted on page 52.

5 Projected payroll taxes were based on the ratio of payroll taxes to
6 labor expense for 2015 and applied to the projected 2016 and 2017 labor
7 expense to determine the projected payroll taxes.

8 Production taxes have been adjusted to reflect 2016 and 2017
9 projected generation levels for Lewis & Clark and Thunder Spirit
10 generation and applicable retail sales volumes. North Dakota coal
11 conversion taxes have also been adjusted to reflect projected generation
12 levels at the Heskett and Coyote stations.

13 All other taxes other than income have been assumed to be flat
14 from the 2015 per books level.

15 **Q. Would you describe the calculation of federal and state income**
16 **taxes?**

17 A. The projected income tax calculation for North Dakota electric
18 operations as related to base rates and the renewable (wind) rider are
19 shown on pages 55 and 56, respectively. Interest is deductible for tax
20 purposes and the projected interest expense is calculated on the projected
21 rate base using the projected debt ratio and weighted cost of debt from
22 Statement D, page 1.

1 North Dakota federal and state income taxes are fully normalized,
2 so the calculation of income taxes is made on the taxable income after
3 interest, since any tax deductions would be fully offset by deferred income
4 taxes.

5 Production tax credits for all wind generation have been included in
6 the renewable (wind) rider and are shown on page 59.

7 **Rate Base**

8 **Q. Would you provide an overview of the development of the projected**
9 **rate base for 2016 and 2017?**

10 A. The rate base is summarized on Statement L, page 1 and shows
11 the 2015 actual and projected 2016 and 2017 rate base for North Dakota
12 electric operations. Statement L, page 1 is an accumulation of Statement
13 L-1, all rate base components included in base rates, and L-2, the rate
14 base associated with the Company's wind facilities and included in the
15 renewable (wind) rider.

16 Statement L-1, base rates, and Statement L-2 have been
17 developed using a consistent method and are based on projected plant in
18 service for 2016 and 2017. In each statement, the projected plant was
19 developed by adding the planned capital projects to be completed during
20 2016 to the 2015 plant in service balances. The planned capital projects
21 have been identified through the short- and long-term planning process
22 and include growth and replacement projects as well as those that add to
23 reliability of service. Retirements, based on a three-year average of

1 retirements by function, were deducted and the average 2016 balance
2 was calculated. The process was repeated for 2017.

3 The projected reserve balances were calculated using the reserve
4 balances at December 31, 2015, adding the calculated depreciation
5 expense and deducting retirements as determined above. The average
6 2016 balances were then calculated and the process was repeated for
7 2017.

8 Working capital was developed by type. Materials and supplies,
9 fuel stocks, and prepayments were restated to a thirteen-month average.
10 The unamortized loss of debt was calculated using the balances as of
11 December 31, 2015, recalculating the 2016 balance along with the annual
12 amortization to arrive at a balance for 2016. The 2015 and 2016 balances
13 were then averaged to reflect the 2016 average unamortized loss on debt.
14 The process was repeated to calculate the 2017 average unamortized
15 loss on debt. The associated accumulated deferred income taxes were
16 based on the effective tax rate of 37.8015 percent.

17 Customer advances for construction are restated to a thirteen-
18 month average balance for 2016 and 2017 as well.

19 The projected balances for deferred income taxes were derived by
20 adding the changes to the deferred income taxes for 2016 and 2017 to the
21 2015 balances and calculating the average balance. The changes
22 associated with book/tax depreciation differences (liberalized depreciation)

1 were calculated based on the projected changes due to the plant additions
2 as well as existing plant.

3 The accumulated deferred income taxes associated with the
4 current working capital items as well as all proposed rate base changes
5 were also adjusted to reflect the appropriate tax treatment.

6 **Q. Would you now describe in detail the development of the projected**
7 **rate base for 2016 and 2017 specific to the rate base to be included in**
8 **Statement L-1 base rates?**

9 A. Yes. Statement L-1, page 1 is a summary of the per books and
10 projected rate base. As noted, the plant in service reflects additions and
11 retirements with a summary of the activity presented on page 3. All
12 projected capital additions are shown on pages 4 through 11. The capital
13 additions are shown by project, account and amount with a short
14 description of the project indicating its intended purpose and, as
15 applicable, whether the project is intended to support existing customers
16 or whether the project is growth oriented. As mentioned, retirements have
17 been considered in the final determination of plant in service as well as the
18 accumulated reserve ending balances. The accumulated reserve balance
19 also reflects the proposed level of depreciation in each projected year.

20 Working capital is presented as follows:

- 21 • Materials and supplies, as shown on page 14, have been adjusted
22 to reflect a thirteen-month average with actual balances through

1 July 2016. The prior years' ending balance has been used for the
2 remainder of the period.

3 • Fuel stores have been adjusted in the same manner as materials
4 and supplies.

5 • Prepaid insurance has been to reflect a thirteen-month average
6 with actual balances through July 2016. All future period balances
7 are based on the projected 2016-2017 insurance expense.

8 • As noted earlier, unamortized loss on debt was calculated using the
9 balances as of December 31, 2015, recalculating the 2016 balance
10 along with the annual amortization to arrive at a balance for 2016.

11 The 2015 and 2016 balances were then averaged to reflect the
12 2016 average unamortized loss on debt. The process was
13 repeated to calculate the 2017 average unamortized loss on debt.

14 • Decommissioning of retired power plants is amortized over 10
15 years and is an offset to rate base within working capital. The
16 annual amortization was adjusted from the balance and beginning
17 and ending balances were used to calculate an average.

18 • Montana-Dakota is proposing to include an estimate of future
19 decommissioning costs as shown on page 19. Substantial costs
20 will be incurred to decommission the Company's existing
21 generation fleet upon retirement. Montana-Dakota has contracted
22 with outside consultants to prepare cost studies for the expected
23 decommissioning cost for each power plant and the Company

1 proposes to recover the identified costs over the remaining life of
2 each power plant. The total costs will be collected based on an
3 amortization rather than a percentage of the plant balance to better
4 match the cost and prevent over collection as a result of increases
5 in plant value as a result of capital additions over time. As
6 decommissioning costs are amortized and collected in rates, the
7 balance will reduce rate base. Upon the decommissioning of a
8 generating unit, the costs will reduce the balance collected. Finally,
9 the amortization is proposed to be updated with each general rate
10 case.

- 11 • During the recent period of rapid expansion related to oil
12 development in western North Dakota, the region operations
13 experienced a lack of housing units available to meet the number of
14 workers necessary to fill required jobs. In many cases, Montana-
15 Dakota was able to find an individual to fill an open position but the
16 individual was unable to acquire housing and, therefore, was not
17 able to accept the position offered to them. The Company found it
18 was necessary to provide housing options, specifically
19 manufactured homes, in order to be able to attract and retain
20 employees. More recently, the number of housing units in the
21 region has increased and employees have been able to find
22 permanent housing. Therefore, the Company made the decision to
23 dispose of all housing units. A loss was incurred upon disposal and

1 the Company is proposing to amortize the loss over a twenty-year
2 period with the unamortized balance included in the rate base as an
3 addition.

4 At the same time, the Company built new office buildings in
5 Williston and Watford City. The former office buildings were
6 disposed of at a substantial gain, in large part due to the previously
7 mentioned oil development activity and lack of available
8 infrastructure. Generally, gains and losses resulting from the sale
9 of buildings is not included in the regulated earnings of the utility. In
10 this case, Montana-Dakota has proposed to include the gain as an
11 offset to rate base and to amortize the gain over the same twenty-
12 year period as the losses on Company owned housing as a credit
13 to depreciation expenses. These two items are shown on page 20.

- 14 • Finally, customer advances for construction are restated to a
15 thirteen-month average balance for 2016 and 2017, with actuals
16 through July 2016. Customer advances for construction are shown
17 on page 21.

18 Accumulated deferred income taxes are shown on page 22.

19 Liberalized depreciation reflects the accumulated deferred income
20 taxes associated with the difference between book and tax
21 depreciation with the projected year end balances reflecting plant
22 additions and timing differences of existing plant. All other accounts
23 represent the change in deferred tax balances which were adjusted to

1 reflect the change in balance due to amortizations and other changes
2 as appropriate.

3 **Q. Would you now describe in detail the development of the projected**
4 **rate base for 2016 and 2017 specific to the rate base to be included in**
5 **Statement L-2 renewable (wind) rider?**

6 A. Yes. Statement L-2, page 1 is a summary of the per books and
7 projected rate base for the Company's three wind generating facilities,
8 specifically Diamond Willow, Cedar Hills, and Thunder Spirit.

9 Currently, Rate 55 Renewable Resource Cost Adjustment includes
10 only assets associated with the Thunder Spirit facility. The Company is
11 proposing to reclassify Diamond Willow and Cedar Hills from base rates to
12 be included in this rider. The characteristics which separate wind assets
13 from base rates is due to their very short tax depreciation life, only five
14 years, and a relatively short book depreciation life. In simple terms, the
15 rate base declines very rapidly and rates can be adjusted to coincide with
16 the reduced revenue requirement whereas, if included in base rates, rates
17 are adjusted only through a general rate case, a more costly and less
18 reactive mechanism.

19 Another factor which supports separating wind assets from base
20 rates is the Federal production tax credits (PTCs), which are in effect for
21 the first 10 years of the asset's life, and the income tax credit for assets
22 constructed in the state of North Dakota. The rate of tax credit per PTC
23 generated is adjusted for inflation annually. Again, as the per unit credit

1 increases it reduces the revenue requirement associated with wind assets.
2 The utilization of tax credits can significantly affect the revenue
3 requirement. Therefore, the ability to account for these items within a
4 tracker ensures the revenue charged to customers reflects only the
5 appropriate level of revenue requirement and allows the implementation of
6 rate changes on a timely basis.

7 Montana-Dakota is proposing to change how the revenue
8 requirement portion of the rider is calculated as it relates to rate base. The
9 proposed method is similar to base rates and most reporting to the state of
10 North Dakota and is a beginning and end of period average. In the past,
11 each month's balance was provided and an average of the months was
12 used in the determination of the overall revenue requirement. There are
13 very few assets in the Company's proposed renewable (wind) rider and
14 the majority of the activity is related to depreciation and deferred income
15 taxes where are generally equal each month. The simplified approach
16 does not distort the overall revenue requirement.

17 The plant in service reflects wind and wind related additions and
18 retirements with a summary of the activity presented on page 3. All
19 projected capital additions are shown on page 5. The capital additions are
20 shown by project, account and amount with a short description of the
21 project indicating its intended purpose. During construction of Thunder
22 Spirit, all costs related to to this project were accumulated in FERC
23 Account 344 in the Company's fixed asset accounting system. Upon

1 placing the project into service in December 2015, the project was
2 preliminarily closed to plant in service pending classification. During 2016,
3 the project was assigned the appropriate FERC account; therefore, the
4 activity within FP-308840 reflects a transfer from wind production to
5 transmission.

6 Similar to base rates, retirements have been considered in the final
7 determination of plant in service as well as the accumulated reserve
8 ending balances. The accumulated reserve balance also reflects the
9 proposed level of depreciation in each projected year.

10 The renewable (wind) rider has one working capital adjustment,
11 decommissioning of power plants, and has been developed in a consistent
12 manner as previously described in base rates.

13 Accumulated deferred income taxes are shown on page 9.
14 Liberalized depreciation reflects the accumulated deferred income taxes
15 associated with the difference between book and tax depreciation with the
16 projected year end balances reflecting plant additions and timing
17 differences of existing plant. The deferred tax associated with power plant
18 decommissioning is based on the tax impact of the projected 2017
19 amortization. Montana-Dakota has a deferred tax asset at December 31,
20 2015 related to PTCs that the Company was unable to use. Largely
21 because of the accelerated depreciation of Thunder Spirit, no PTCs are
22 projected to be utilized in 2016; however, a portion of the PTCs generated
23 during 2017 are projected to be utilized. All un-utilized PTCs are carried

1 as a deferred tax asset and included in rate base. It is important to
2 understand that PTCs continue to be shown on the income statement and
3 significantly reduce the revenue requirement. However, the Company
4 does not receive a cash benefit so the balance is included on the rate
5 base. Once again, as these PTCs are used the rate base will be adjusted
6 and the revenue requirement will be adjusted on a timely basis.

7 Investment tax credits have been included as an offset to rate base
8 for credits to North Dakota state income tax which have been taken based
9 on the investment in Cedar Hills. These investment tax credits are
10 amortized over the remaining life of Cedar Hills. Thunder Spirit is also
11 eligible to receive investment tax credit; however, the Company does not
12 currently expect to pay state income tax during 2016 or 2017. Because of
13 the nature of a utility company, Montana-Dakota is very capital intensive
14 and Thunder Spirit is a large investment with a five-year tax depreciable
15 life. In addition, the Company has a number of other capital projects
16 which receive a very short tax life, such as environmental projects which
17 are five or seven year amortizations.

18 Montana-Dakota's projections do not support the utilization of the
19 bonus tax depreciation election available during 2016 and 2017. As noted
20 above, the Company is unable to offset cash payments of Federal income
21 tax with PTCs. Nor has the Company been able to offset North Dakota
22 state income tax with the investment tax credits available on Cedar Hills
23 and Thunder Spirit wind investments.

1 Q. **What is the additional revenue requirement calculated on Exhibit**
2 **No. ____ (TRJ-1)?**

3 A. Exhibit No. ____ (TRJ-1), which is identical to Statement J, pages 3
4 through 5, shows the calculation of the revenue deficiency for base rates
5 of \$14,111,438 on page 3, a reduction from rates currently in place for the
6 renewable (wind) rider of \$1,399 on page 4, and a reduction from rates
7 currently in place for the for the transmission rider of \$725,568 on page 5.
8 Each is based on the projected 2017 income and rate base and using the
9 overall rate of return of 7.459 percent from Statement D, page 1 and
10 supported by Ms. Nygard and Dr. Gaske. The total revenue deficiency,
11 again based on a projected 2017 test period, is \$13,384,471.

12 Q. **Is Montana-Dakota seeking an interim increase in this case?**

13 A. Yes, it is. As stated by Ms. Kivisto, Montana-Dakota is seeking an
14 interim rate relief in this case pursuant to North Dakota §49-05-06.

15 Q. **What amount of interim rate relief is the Company seeking?**

16 A. The Company has identified an interim revenue requirement,
17 presented in Exhibit No. ____ (TRJ-2) of \$13,027,771 and Appendix B of
18 the Interim Application based on the 2017 projected cost of service. The
19 return used in this projection is based on a 10.00 percent return on equity
20 and matches the return in the Company's rate increase request. The most
21 recently approved return on equity of 10.75 percent, pursuant to the Case
22 No. PU-10-124, the Company's last general rate case, has not been used
23 in the Interim Revenue Requirement.

1 The interim request was adjusted to remove three of the
2 Company's proposed adjustments in the development of its rate increase
3 request as they have not been approved by the Commission in prior
4 general rate proceedings. The amortization of power plant
5 decommissioning and the amortization of the gains and losses on
6 Company owned buildings and manufactured homes have been excluded
7 from the interim revenue requirement and the interim reflects a lower level
8 of depreciation expense. Likewise, reagents and sand have not been
9 reclassified from O&M to fuel & purchased power in the Company's
10 application for interim. This change results in a lower base fuel &
11 purchased power and a corresponding lower revenue in base rates. In
12 addition, O&M expenses are included at a higher level to reflect the
13 transfer of expense.

14 The Company has reflected the proposed depreciation rates, which
15 reflect an overall decrease in depreciation expense, in the interim revenue
16 requirement rather than current depreciation rates. Montana-Dakota
17 proposes to implement the proposed depreciation rates to coincide with
18 the implementation of interim rates in order to properly match rates with
19 the appropriate cost of service.

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

21 A. Yes, it does.

**MONTANA-DAKOTA UTILITIES CO.
 PROJECTED OPERATING INCOME AND RATE OF RETURN
 REFLECTING ADDITIONAL REVENUE REQUIREMENTS
 ELECTRIC UTILITY - NORTH DAKOTA
 PROJECTED 2017**

	Before Additional Revenue Requirements 1/	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$182,637,355	\$14,111,438	\$196,748,793
Sales for Resale	-		-
Other	3,671,067		3,671,067
Total Revenues	<u>186,308,422</u>	<u>14,111,438</u>	<u>200,419,860</u>
Operating Expenses			
Operation and Maintenance			
Cost of Fuel & Purchased Power	54,200,344		54,200,344
Other O&M	55,385,070		55,385,070
Total O&M	<u>109,585,414</u>		<u>109,585,414</u>
Depreciation	26,860,910		26,860,910
Taxes Other Than Income	7,040,894		7,040,894
Current Income Taxes	11,187,983	5,334,335 2/	16,522,318
Deferred Income Taxes	0		0
Total Expenses	<u>154,675,201</u>	<u>5,334,335</u>	<u>160,009,536</u>
Operating Income	<u>\$31,633,221</u>	<u>\$8,777,103</u>	<u>\$40,410,324</u>
Rate Base	<u>\$541,765,976</u>		<u>\$541,765,976</u>
Rate of Return	5.839%		7.459%

1/ Statement K, Page 1.

2/ Reflects state and federal taxes at 37.8015%.

**MONTANA-DAKOTA UTILITIES CO.
 PROJECTED OPERATING INCOME AND RATE OF RETURN
 REFLECTING ADDITIONAL REVENUE REQUIREMENTS
 ELECTRIC UTILITY - NORTH DAKOTA
 PROJECTED 2017**

WIND - RENEWABLE RIDER			
	Before Additional Revenue Requirements 1/	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$13,923,093	(\$1,399)	\$13,921,694
Operating Expenses			
Operation and Maintenance			
Cost of Fuel & Purchased Power	0		0
Other O&M	2,214,736		2,214,736
Total O&M	2,214,736		2,214,736
Depreciation	9,290,281		9,290,281
Taxes Other Than Income	682,781		682,781
Current Income Taxes	(9,999,638)	(529) 2/	(10,000,167)
Deferred Income Taxes	0		0
Total Expenses	2,188,160	(529)	2,187,631
Operating Income	\$11,734,933	(\$870)	\$11,734,063
Rate Base	\$157,314,155		\$157,314,155
Rate of Return	7.460%		7.459%

1/ Statement K, Page 2.
 2/ Reflects state and federal taxes at 37.8015%.

**MONTANA-DAKOTA UTILITIES CO.
 PROJECTED OPERATING INCOME AND RATE OF RETURN
 REFLECTING ADDITIONAL REVENUE REQUIREMENTS
 ELECTRIC UTILITY - NORTH DAKOTA
 PROJECTED 2017**

TRANSMISSION COST ADJUSTMENT

	Before Additional Revenue Requirements 1/	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$6,183,536	(\$725,568)	\$5,457,968
Other	14,473,223		14,473,223
Total Revenues	<u>20,656,759</u>		<u>19,931,191</u>
Operating Expenses			
Operation and Maintenance			
Cost of Fuel & Purchased Power	0		0
Other O&M	19,931,191		19,931,191
Total O&M	<u>19,931,191</u>		<u>19,931,191</u>
Depreciation	0		0
Taxes Other Than Income	0		0
Current Income Taxes	0		0
Deferred Income Taxes	0		0
Total Expenses	<u>19,931,191</u>	<u>0</u>	<u>19,931,191</u>
Operating Income	<u>\$725,568</u>	<u>\$0</u>	<u>\$0</u>

1/ Statement K, Page 3.

MONTANA-DAKOTA UTILITIES CO.
PROJECTED OPERATING INCOME AND RATE OF RETURN
REFLECTING ADDITIONAL REVENUE REQUIREMENTS
ELECTRIC UTILITY - NORTH DAKOTA
PROJECTED 2017
- INTERIM -

	Before Additional Revenue Requirements 1/	Additional Revenue Requirements	Reflecting Additional Revenue Requirements
Operating Revenues			
Sales	\$200,771,959	\$13,027,771	\$213,799,730
Sales for Resale	-		-
Other	18,141,923		18,141,923
Total Revenues	<u>218,913,882</u>	<u>13,027,771</u>	<u>231,941,653</u>
Operating Expenses			
Operation and Maintenance			
Cost of Fuel & Purchased Power	52,219,834		52,219,834
Other O&M	79,505,702		79,505,702
Total O&M	<u>131,725,536</u>		<u>131,725,536</u>
Depreciation	33,828,680		33,828,680
Taxes Other Than Income	7,723,675		7,723,675
Current Income Taxes	1,596,647	4,924,693 2/	6,521,340
Deferred Income Taxes	0		0
Total Expenses	<u>174,874,538</u>	<u>4,924,693</u>	<u>179,799,231</u>
Operating Income	<u>\$44,039,344</u>	<u>\$8,103,078</u>	<u>\$52,142,422</u>
Rate Base	<u>\$699,053,794</u>		<u>\$699,053,794</u>
Rate of Return			
	<u>6.300%</u>		<u>7.459%</u>

1/ Page 2

2/ Reflects state and federal taxes at 37.8015%.



**State of North Dakota
Electric Rate Schedule**

NDPSC Volume 4
6th Revised Sheet No. 42
Canceling 5th Revised Sheet No. 42

FUEL AND PURCHASED POWER ADJUSTMENT Rate 58

Page 1 of 3

1. Applicability:

This rate schedule sets forth the procedure to be used in calculating the Fuel and Purchased Power Adjustment (FPPA). It specifies the procedure to be utilized to adjust the rates for electricity sold under Montana-Dakota's rate schedules in order to reflect: (a) changes in Montana-Dakota's average cost of fuel and purchased power as allocated to North Dakota; and (b) amortization of the Deferred Fuel Cost Account.

2. Effective Date and Limitation on Adjustments:

- a. Unless otherwise ordered by the Commission, the effective dates of the Fuel and Purchased Power Adjustment shall be service rendered on and after the first day of each month. The effective date of the adjustment for amortization of the Deferred Fuel Cost Account shall be April 1 of each year.
- b. Montana-Dakota shall file an adjustment to reflect changes in its average cost of electric supply only when the amount of change in such adjustment is at least .001 cents per Kwh. The adjustment to be effective April 1 shall be filed each year, regardless of the amount of the change.

3. Fuel and Purchased Power Adjustment:

- a. The monthly Fuel and Purchased Power Adjustment shall be calculated separately for primary service and secondary service customers and shall reflect the changes in Montana-Dakota's cost of fuel and purchased power as compared to the cost of fuel and purchased power approved in its base rates plus the annual Surcharge Adjustment. The base fuel and purchased power cost shall be 2.454¢ per Kwh for primary service and 2.536¢ per Kwh for secondary service as established in the most recent general rate case.
- b. The cost of fuel and purchased power shall be calculated separately for primary service customers and secondary service customers, and shall be the sum of the following costs for the most recent four month period, as allocated to North Dakota and to the primary and secondary customer classes:
 - 1. The cost of fossil and other fuels and reagents, including sand, recorded in Account Nos. 501, 502 and 547.

Date Filed: October 14, 2016

Effective Date:

Issued By: Tamie A. Aberle
Director- Regulatory Affairs

Case No.:



**State of North Dakota
Electric Rate Schedule**

NDPSC Volume 4
5th Revised Sheet No. 42.1
Canceling 4th Revised Sheet No. 42.1

FUEL AND PURCHASED POWER ADJUSTMENT Rate 58

Page 2 of 3

2. Natural gas and pipeline reservation charges recorded in Account No. 547
 3. The net cost of purchases and costs linked to the utility's load serving obligation associated with participation in the wholesale electric energy markets as recorded in Account No. 555
 4. Capacity purchases as recorded in Account No. 555.
 5. Regional Market Administration expenses recorded in Account No. 575.
 6. Less 100 percent of the wholesale sales revenue.
 7. Less the revenue from the sales of Renewable Energy Credits (RECs).
- c. The cost per Kwh for the month is the sum of 3(b) above divided by retail sales volumes for the most recent four month period for the primary and secondary service classes.

4. Surcharge Adjustment:

All sales rate schedules shall be subject to a Surcharge Adjustment to be effective on April 1 each year. The Surcharge Adjustment per Kwh sold shall reflect the amortization of the applicable balance in the Deferred Fuel Cost Account calculated by dividing the applicable balance by the estimated Kwh sales for the twelve months following the effective date of the adjustment.

- a. The balance in the Deferred Fuel Cost Account (Account 182.3) includes:
1. The current month over or under recovery, determined as follows:
 - i. Montana-Dakota shall determine each month the cost for that month's fuel and purchased power.
 - ii. Montana-Dakota shall subtract from the month's cost the cost reflected in rates for that month.

Date Filed: October, 14, 2016

Effective Date:

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Director- Regulatory Affairs

Case No.:



**State of North Dakota
 Electric Rate Schedule**

NDPSC Volume 4
 55th Revised Sheet No. 42.2
 Canceling 54th Revised Sheet No. 42.2

FUEL AND PURCHASED POWER ADJUSTMENT Rate 58

Page 3 of 3

- iii. The resulting difference (positive or negative) shall be included that month under each rate schedule.
- 2. Refunds from supplier(s) and market operators with respect to fuel and purchased power costs.
- 3. Carrying charges or credits at a rate equal to the three-month Treasury Bill rate as published monthly by the Federal Reserve Board.
- 4. The balance in the Deferred Fuel Cost Account shall be decreased each month by the amount of the Surcharge Adjustment multiplied by the Kwh sales for the month.
- 5. **Manner of Filing:**
 The Company shall file a monthly statement showing the calculation of the Fuel and Purchased Power Adjustment with the Commission prior to implementing the monthly adjustment. The adjustment in rates shall be effective with service rendered on and after the first day of each month, unless the Commission shall otherwise order.

6. Fuel and Purchased Power Adjustment:

	<u>Primary</u>	<u>Secondary</u>
Base Fuel	2.454¢	2.536¢
Fuel and Purchased Power Adjustment	0.000	0.000
Total FPPA	2.454¢	2.536¢

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 Director- Regulatory Affairs