Surrebuttal Testimony and Schedules

Dante Mugrace

# Before the North Dakota Public Service Commission
# State of North Dakota

In the Matter of the Application of Montana-Dakota Utilities Co.
a Division of MDU Resources Group, Inc.,
For Authority to Establish Increased Rates for
Natural Gas Service

## Case No. PU-17-295

Overall Revenue Requirement

Rate Base

Income Statement

**April 30, 2018**

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Prefiled Surrebuttal Testimony of Dante Mugrace and Verification
Public Service Commission Advocacy Counsel
Mitch Armstrong, SAAG

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## I. Introduction

**Q. Please state your name, position and business address.**

**A.** My name is Dante Mugrace. I am a Senior Consultant with the regulatory consultant firm of PCMG and Associates, LLC. My business address is 22 Brookes Avenue, Gaithersburg, MD 20877.

**Q. Are you the same Dante Mugrace who previously filed Direct Testimony in this Proceeding?**

**A.** Yes. I submitted Direct Testimony on December 18, 2017. My qualifications and experiences are attached to my Direct Testimony.

## II. Purpose of Testimony

**Q. What is the purposed of your rebuttal testimony?**

**A.** The purpose of my Surrebuttal Testimony is to address the Rebuttal Testimony of Montana-Dakota Utilities Co. (MDU or Company) witnesses Kaiser and Jacobson. I am also making certain adjustments to the proposals in my Direct Testimony and a revised calculation of the Company's revenue requirement that incorporates the effects of my adjustments. To the extent that I do not respond to a particular issue or argument contained within my Surrebuttal Testimony, I defer to my Direct Testimony on those issues.

**Q. With your adjustments to your Direct Testimony, what is your revised Company revenue requirement?**

**A.** With my adjustments, I have calculated a revised revenue requirement of $867,496 or 0.774% over current rates. This revised revenue requirement takes into account the Tax Cuts and Jobs Act of 2017 that reduces the Federal Corporate Income Tax from 35% to 21%. My recommended revenue requirement includes an overall rate of return of 7.150% with a common equity component of 9.23% as recommended by Dr. Marlon Griffing.

**Q. What has the Company proposed regarding its updated revenue requirement?**

**A.** The Company is now proposing a revenue requirement increase of $3,575,388, a reduction of $2,287,809 from its initial filing.

## III. Revenue Requirement Issues

A. Labor Expense – Incentive Compensation

**Q. What did Mr. Kaiser state regarding your adjustment to the Company's Incentive Compensation?**

**A.** Mr. Kaiser stated that he does not agree with my adjustment to reduce or eliminate incentive compensation by 60%. He stated that the 60% reduction was arrived via a settlement discussion at which the Company agreed that an arbitrary reduction was justified. Mr. Kaiser stated that there are three basic principles MDU uses to design its incentive compensation. (Kaiser rebuttal page 3). The first principle or approach views base pay and incentive compensation as the two key components of total cash compensation. (base pay and at-risk). The second principle or approach compares company wages and at-risk pay with relative labor markets and sets a total cash compensation at the market average. He stated that the total cash compensation must provide the same general pay levels and benefits in the Company's total reward package as provided by the Company's competitors for labor. The third principle or approach encourages employee engagement. Each employee has the opportunity to receive total cash compensation and benefits at the market average, so long as the employee performs at an acceptable level and is aligned with the market average (Kaiser rebuttal page 3-4).

**Q. What did Mr. Kaiser state, absent incentive compensation, were other means of maintaining adequate compensation?**

**A.** Mr. Kaiser stated that in the absence of incentive compensation, the only viable alternative is to increase fixed costs in the form of base pay, which is the most expensive way to compensate employees because other benefits such as the Company's 401K contributions are calculated as a percentage of base salary. (Kaiser rebuttal pay 5).

**Q. Did Mr. Kaiser state that MDU achieved the goals outlined in the 2016 and 2017 Employee Incentive Compensation Plans?**

**A.** Yes. Mr. Kaiser stated that the goals were achieved and were available in February 2018. (Kaiser rebuttal page 7).

**Q. Did Mr. Kaiser provide the level of incentive compensation actually paid to the employees of MDU in its rebuttal testimony?**

**A.** No. I did not see any document or schedule prepared by the Company reflecting the incentive compensation that was actually achieved and actually paid to the employees of MDU.

**Q. Did Mr. Kaiser provide any document or schedule that shows or reflects the allocation metrics based upon target goals or achievement as indicated in Exhibit JEK-2 page 7 of 11?**

**A.** No. I did not see any document or schedule prepared by the Company reflecting whether any metrics or goals were achieved to receive incentive compensation.

**Q. What is your recommendation?**

**A.** I believe the 60% reduction in Incentive Compensation should be maintained. There is nothing in the Company's filing that indicates whether these Incentive Compensation payouts have been achieved and have been geared towards benefitting customers, providing customer satisfaction or customer safety. The Company has not identified any efficacies to control costs. The Company has the burden of proof to show that its incentive compensation is reasonable and benefits North Dakota gas ratepayers with respect to customer service, customer safety and customer satisfaction initiatives. While I believe that some of the Incentive Compensation benefits customers, I also believe that not all of the Company's proposed Incentive Compensation should be recovered by ratepayers. The Commission's 60% reduction in Incentive Compensation in a prior proceeding provides for a reasonable balance between shareholder and ratepayer benefits. While I do not dispute the Company's compensation philosophy, incentive compensation benefits shareholders as well as ratepayers. In my opinion, the majority of incentive compensation is designed to increase the Company's value and not to benefit ratepayers. Therefore, a majority of incentive compensation should be borne by the shareholders rather than ratepayers. Further, the Company's claim that if incentive compensation is not awarded, then all compensation would be converted to base pay is an overreaction. It appears the Company is attempting to force compensation that benefits shareholders onto the ratepayers by creating an all or nothing approach even though there is a benefit to shareholders through incentive compensation.

Labor Expense – Premium Time

**Q. What did Company witness, Mr. Jacobson state regarding your adjustment to the Company's Premium Time?**

**A.** Mr. Jacobson stated that in the long run, these expenses were declining over a five-year period (2013-2017) rather than my view of the Company's expenses over a two-year period. Mr. Jacobson stated that Premium Overtime has been declining since 2015 with a five-year average at $550,278 (Jacobson Rebuttal page 16).

**Q. What is your recommendation?**

**A.** I reviewed the Company's five-year Premium Overtime costs and conclude that these costs have been on the decline over the five-year period. I am accepting the Company's reasoning and removing my adjustment of $7,370. My adjustments are reflected in my Schedules DM Surr-7, 8, 9, 11 and 12.

B. Medical/Dental Insurance

**Q. What did Mr. Jacobson state regarding your adjustment to the Company's Medical/Dental Insurance?**

**A.** Mr. Jacobson provided information regarding its projected 2018 medical/dental premiums which became effective January 1, 2018. The 2018 expense is an increase of $65,919 over 2017. (Exhibit TRJ-4, page 1 of 4). The Company's total

2018 medical/dental premiums are $1,333,587, a reduction from the Company's as filed position of $1,356,405 (Statement K, page 14 of 37).

**Q. What is your recommendation?**

**A.** I reviewed the Company's Exhibit TRJ-4 page 1 of 4 and accept the Company's updated costs for medical/dental of $1,333,587. My adjustment is shown on my Schedule DM Surr-12.

**Q. What did Mr. Jacobson state regarding your adjustment to the Company's Insurance Expense?**

**A.** Mr. Jacobson provided information regarding its proposed 2018 insurance premiums which became effective January 1, 2018 (Exhibit TRJ-4 page 3 of 4). The 2018 expense is an increase of $53,464 over 2017 costs or $661,418.

**Q. What is your recommendation?**

**A.** I reviewed the Company's Exhibit TRJ-4 page 3 of 4 and accept the Company's updated costs for its Insurance of $661,418. My adjustment is shown on my Schedule DM Surr-12.

<u>C. Vehicles and Work Equipment</u>

**Q. What did Mr. Jacobson state regarding your adjustment to the Company's Vehicle and Work Equipment?**

**A.** Mr. Jacobson stated that the Company did not propose to change the accounting method for vehicles and work equipment (Jacobson rebuttal page 7). Mr. Jacobson stated that the proposed adjustment to vehicles and work equipment expense was based entirely on the change in the depreciation rates. Mr. Jacobson also did not agree with my three-year average for changes in plant in service due to purchases or disposals of vehicles and work equipment that results in a mismatch.

**Q. What is your recommendation?**

**A.** It is still unclear to me how the Company accounts for and allocates its vehicles and work equipment. The Company stated that the increase in costs for its vehicles and work equipment is based on the change in its depreciation expense and in its depreciation rates (Jacobson rebuttal page 7 line 3-4, page 6 line 20-21). The use of a three-year average does not skew or cause a mismatch, but rather evens out the "costs in total" to a normalized level. Given that the proposed depreciation rates were based upon projected 2017 and 2018 periods, I used a two-year average to better normalize the level of expense. My adjustments are shown on my Schedules DM Surr-7, 8, 9, 10, 11 and 12, and reduces the Company's expense by $21,041.

D. Inflation Factors

**Q. What did Mr. Jacobson state regarding your removal of cost increases based upon inflation or CPI?**

**A.** Mr. Jacobson stated that the Company prepares its revenue requirement in a consistent manner with previous gas and electric rate filings which include reasonable estimates of inflation or other supportable estimates (Jacobson rebuttal page 8). Mr. Jacobson indicated that the use of inflation factors is consistent with prior North Dakota filings.

**Q. What is your recommendation?**

**A.** As I stated in my direct testimony, I believe that inflation related increases are not known and measurable and do not reflect the true cost of doing business. Costs should be predicated on evidence or documentation that supports the Company's proposed ratemaking adjustments and not just a blanket or general type inflationary increase applied to all types of expenses or costs. Such evidence are contractual annual increases, contractual escalation factors, and other known and measurable increases.

**Q. What did Mr. Jacobson state regarding your removal of the increase to the Company's postage expense?**

**A.** Mr. Jacobson stated that postage increase of $9,626, was tied to the Consumer Price Index CPI), and the Postal Regulatory Commission sets rates based on changes in the average of twelve monthly CPI (urban consumers) figures. (Jacobson rebuttal page 9).

**Q. What is your recommendation?**

**A.** I note that on January 21, 2018, the U.S. Postal Service has implemented new postage rates for several mailing and shipping products.[1] Therefore, I accept the Company's increase of $9,626 for postage related to Customer Accounting. My adjustment is shown on my Schedule DM Surr-DM-9.

[1] https://www.stamps.com/usps/postage-rate-increase/

E. MDU Resources, FutureSource

**Q. What did Mr. Jacobson state regarding the costs charged by MDU Resources and for FutureSource?**

**A.** Mr. Jacobson stated that my removal of $169,840 related to MDU Resource charges, specifically, $182,790 related to bonuses and incentive compensation should be rejected because it is duplicative and already has been removed in the Company's overall labor adjustment. (Jacobson rebuttal page 10).

**Q. What is your recommendation?**

**A.** I reviewed Response No. 6.02 and Response No. 2.24(a) Attachment A and note that my removal of $182,790 was duplicative. I have made my adjustment to remove the duplicate adjustment which is shown on my Schedule DM Surr-5.

F. Aircraft Costs

**Q. What did Mr. Jacobson state regarding the costs that were removed related to the Company's use of Aircraft Equipment.**

**A.** Mr. Jacobson stated that I did not consider the broader use for the Company owned aircraft. He stated that the Company owned aircraft supports a number of associated functions, including debt and equity analyst meetings and board of director meetings. He further stated that North Dakota customers are not charged for the use of aircraft for trips that are specifically related to business conducted in other states (Jacobson rebuttal page 11). Mr. Jacobson stated that removing all air travel costs without considering like costs of commercial air travel would unfairly harm Montana-Dakota.

**Q. What is your response to Mr. Jacobson?**

**A.** The Company has not shown or provided any information related to the breakdown of costs related to aircraft expenses, or a breakdown that shows the level of costs related to other associated functions such as meetings and board of director meetings. The Company has not provided a breakdown of its aircraft use related to North Dakota business and non-North Dakota business. Nor has the Company prepared a schedule that shows the comparison of costs for commercial air travel. Nor has the Company explained how the use of aircraft benefits ratepayers. The Company should provide this information to reflect these differences used or functions in comparison to total aircraft expense. Until such time as the Company can provide this information, my recommendation to remove $446,796 related to aircraft costs remain the same. This also holds true to my removal of aircraft revenues of $462,280. My recommendation is shown on my DM Surr-4 and 5.

**Q. What did Mr. Jacobson state regarding your removal of all FutureSource expenses?**

**A.** Mr. Jacobson stated that my removal of all FutureSource expenses also included costs and revenues related to corporate campus, shared services, and corporate shared services that provide payroll, procurement and enterprise technology.

**Q. What is your response?**

**A.** In Response No. 6.02, the Company provided a schedule of MDU/GPNG cost related to Corporate Campus, Aircraft & Hangar ROI & Cost of Service on shared service assets, Corporate Aircraft Fixed Costs and billing flights on Corporate Aircraft. The Company has not specifically identified each cost component that is aircraft use related and shared services related. The Company should provide a detailed breakdown and a description of all costs in this Response 6.02 to reflect Aircraft related costs and non-Aircraft related costs. Until such time as the

Company can provide this information, my recommendation to remove these costs remains the same.

### G. Advertising

**Q. What did Mr. Jacobson state regarding your removal of 50% of Advertising Expenses?**

**A.** Mr. Jacobson stated that I arbitrarily disallowed 50% ($67,051) based on the fact that there are many entries that are not specific to the Company's gas service operations on the workpapers provided Workpaper K126 through Workpaper K136). He further stated that my adjustments were duplicative, and not well supported and without merit (Jacobson rebuttal page 12).

**Q. What is your response?**

**A.** As I testified to in my Direct Testimony, there are many entries that are not specific to the Company's North Dakota Gas Service Operations. It is difficult to separate out advertising costs related to the North Dakota Gas Service Operations. Further, the balances in the Company's workpapers do not coincide with the Company's Statement K page 23. The Company should provide a reconciliation of its workpapers to its Statement K page 23 so that a full and complete understanding of how the Company accounts for its Advertising is properly reflected and identified. With regard to Mr. Jacobson stating that my adjustment was duplicative, and without merit, I made my adjustment based upon the Company's level of Advertising Expense for the projected period 2018. The Company made an adjustment to remove Promotional Advertising Expense of $43,846 (Statement K), and a slight adjustment to its Informational Advertising ($24) and to its Institutional Advertising ($728) which were the only adjustments to the Company's per books 2016 balance. I did not duplicate any adjustments. Given this information, I am inclined to keep my 50% disallowance of the Company Advertising Expense. My adjustments are shown on my Schedules DM Surr-10 and 12.

H. Industry Dues

**Q. What did Mr. Jacobson state regarding your elimination of Industry Dues of $6,844?**

**A.** Mr. Jacobson stated that my removal of certain Industry Dues pertains to organizations that benefit natural gas customers in North Dakota. Mr. Jacobson stated that in order to retain a strong community focus and attract businesses, it is important to have Montana-Dakota as a presence. (Jacobson rebuttal page 12-13).

**Q. What is your recommendation?**

**A.** As I indicated in my Direct Testimony, there are many entries in the Company Workpapers K137-145 that appear to be contributions, sponsorships, pledges and donations rather than Industry Dues. While I do not overlook the Company as being a good corporate citizen to the community it provides gas utility service to, I don't believe ratepayers should pay for costs that appear to be related to contributions, sponsorships, pledges and donations. It is not reasonable for ratepayers to pay for costs that are not related specifically for Industry Dues. My recommendation is the same as in my Direct Testimony, the removal of $6,844 related to Industry Dues, and is shown on my Schedule DM Surr-12.

## I. Income Taxes

**Q. Did Mr. Jacobson provide testimony to consider the Impact of the Tax Cuts and Jobs Act (TCJA) to reflect changes in its revenue requirement?**

**A.** Yes, Mr. Jacobson did provide and include the adjustments to the Company's revenue requirement proposal to take into consideration the TCJA. Mr. Jacobson indicated that there are two accounting changes to consider and make adjustments to the TCJA. The first accounting change has the effect of reducing income taxes from 35% to 21% beginning on January 1, 2018. The second accounting change is to remeasure utility-related deferred taxes based on the 21% tax rate with a regulatory liability established to represent the difference between the old and new tax rate referred to as the excess deferred income taxes (EDIT). The EDIT must be amortized over a period of time beginning in 2018 resulting in a decrease to income tax expense. (Jacobson rebuttal page 18-19). Mr. Jacobson also considered the elimination of bonus tax depreciation during 2018 and 2019; the Company included bonus tax depreciation in its initial filing and the elimination of bonus tax depreciation partially offsets the tax changes. (Jacobson rebuttal page 19). The tax change reduces the Company's proposed revenue requirement increase from its initial filing of $5,863,197 to $3,575,388, a reduction of $2,287,809.

**Q. Has the Company determined the full impact of the TCJA?**

**A.** No. The Company is continually working with outside tax professionals to review and determine the full impact of the tax act. At this time, the Company has not identified any other items that will have a material impact on North Dakota's gas operations or the revenue requirement in this case. (Jacobson rebuttal page 20).

**Q. What is the tax rate that the Company is now using to reflect the calculation of Income Tax in this proceeding?**

**A.** The Company is using a combined tax rate of 24.4049% which reflects Federal and State taxes as shown on Exhibit TRJ-5 page 1 of 8. Included in this tax rate is the federal portion of 21%.

**Q. Please describe how the Company accounted for the Excess Deferred Income Tax (EDIT) under the TCJA?**

**A.** According to Mr. Jacobson, the EDIT is separated into two groups- plant and non-plant deferred tax balances. The plant related EDIT is the most significant and is being amortized over the average remaining life of the assets referred to as the Average Rate Assumption Method (ARAM) which is consistent with the Internal Revenue Service guidelines. The use of ARAM to account for the plant related EDIT is because plant related EDIT may not be returned any faster than over the remaining lives of the underlying assets. The annual amortization begins in the period when tax depreciation for each asset is less than book depreciation for the same asset, which will vary from year to year. (Jacobson rebuttal page 20-21).

**Q. What did the Company calculate regarding the annual EDIT adjustments to be included in its Income Tax Expense?**

**A.** As shown on Exhibit TRJ-5 page 3 of 8, the Company has calculated a credit to tax expense of $406,254.

**Q. What is your recommendation?**

**A.** I reviewed the response to 11.1 issued April 3, 2018, which asked for the calculation of the Company's ARAM balance of ($406,254) and accept the

Company's calculation which reflects the Excess Deferred Income Taxes and has been included in the Company's calculation of its Income Taxes as shown on Company Exhibit TRJ-5 page 3 of 8.

**Q. Please describe how the Company accounted for the second group of EDIT- namely the non-plant deferred tax balance.**

**A.** Mr. Jacobson stated that the non-plant EDITs are associated with a number of assets and liabilities with differing lives and are not subject to ARAM. These are related to pension and post-retirement benefits having an estimate life of 20 years, and customer advances with a 5-year life. The Company is proposing to recognize these EDITs over a 10-year period which represents a reasonable time period based upon the weighted average life in which deferred taxes as of December 31, 2017 will be realized. Mr. Jacobson has proposed an annual amortization of $65,417 which increases income tax expense and partially offsets the plant EDITs. (Jacobson rebuttal page 21-22).

**Q. What is your recommendation?**

**A.** I reviewed the response to 11.1 dated April 3, 2018, which asks for the calculation of the Company's Excess Deferred Income Taxes (non-plant). The Company calculated its non-plant EDIT to be $654,168, which the Company stated is based upon the remeasurement of all non-plant deferred tax assets and liabilities as of December 31, 2017. (Exhibit TRJ-7). The Company has not separated out specifically the North Dakota non-plant deferred tax assets and liabilities balance of $654,168. I am recommending that the Company's $654,168 balance, be amortized over a 3-year amortization period or $218,056 per year, be included in the calculation of the Company's Income Tax Expense in this proceeding. I would like to have the Company to provide documentation that separates out the specific North Dakota non-plant items that make up the $654,168.

**Q. Why are you recommending a 3-year amortization period rather than the Company's proposed 10-year amortization period?**

**A.** I am recommending a 3-year amortization period in which the balance of the unprotected EDITs will be fully amortized at that time and removed from the Company's rate base valuation. I believe that a 3-year amortization period allows for a reasonable recovery of the Company's unprotected EDITs and provides the ratepayers with rates that reflect a normalized level between rate case proceedings.

**Q. What has Mr. Jacobson calculated regarding the Company's Income Taxes?**

**A.** Mr. Jacobson has calculated total Income Taxes for the projected 2018 period of $1,698,297 as shown on Exhibit TRJ-5 page 1 of 8). This is a reduction of $2,394,249 from the Company's initial filing of $4,092,546 as shown on Exhibit TRJ-6 page 1 of 8).

**Q. What have you calculated regarding the Company's Income Taxes using the revised Federal Income Tax Rate of 21%?**

**A.** With my recommended surrebuttal adjustments, my income tax expense is calculated in the amount of $1,657,527, an adjustment of ($40,709) and is shown on my Schedule DM Surr-15.

## IV. Rate Base Issues

A. Gas Plant In Service

a. SSIP

**Q. What did Mr. Jacobson state regarding your removal of 100 percent of the proposed mains and service replacements of $5,533,154 from Rate Base related to the Company's System Safety and Integrity Main and Service Replacements Program (SSIP)?**

**A.** Mr. Jacobson stated that the Company has always had replacement projects, and that the SSIP is a new mechanism that would allow the Company to recover the costs of future investments in replacement projects on a timelier basis. Mr. Jacobson stated that the Company's proposal is a more aggressive and efficient approach to replacing identified pipe for the purpose of providing safe and reliable service. Mr. Jacobson stated that if the Commission does not approve the SSIP mechanism, the Company should still be able to include the costs of the replacement projects in its rate base (Jacobson rebuttal page 13-14).

**Q. What is your recommendation?**

**A.** As per the recommendation of Dr. Karl Pavlovic, and as I stated in my direct testimony, I am recommending that the Company not include the costs associated with the main replacements and service replacements totaling $5,533,154 in its rate base under either the SSIP or as part of its plant addition investments in 2018. The Company has not provided a full and complete plan, nor has provided any updated information regarding the necessity and prudence of these projects. Further, the Company's testimony unnecessarily takes an all or nothing approach to replacement projects. Rather than the SSIP, the Company should identify reasonable, necessary, and prudent replacement projects to include in its rate base. Instead, the Company is only including the SSIP, in an apparent attempt to force the Commission into approving all replacement projects it may want instead of only those that may be reasonable, necessary, and prudent. My recommendation is shown on my Schedule DM Surr-17.

b. Vehicles and Work Equipment

**Q. What did Mr. Jacobson state regarding your removal of $1,333,095 related to the Company's Vehicle and Work Equipment Additions?**

**A.** Mr. Jacobson addressed the reduction of $1,333,095 related to the Company's Vehicles and Work Equipment additions (Jacobson rebuttal page 3), but it appears that he did not fully address the removal of these additions in his rebuttal testimony.

**Q. What do you have to add regarding Mr. Jacobson's argument?**

**A.** As I stated in my direct testimony, the Company stated that it records vehicle additions using allocation factors specific to the location or town where the vehicle is in service (Response Nos. 2-18 and 2-19). The Company also provided a budgeted allocated level related to vehicle and work equipment additions. I utilized the Company's actual allocation method rather than the Company's budgeted allocation because I believe that the actual allocation better reflects placement of vehicles and work equipment. My recommendation has not changed. I am recommending that $1,333,095 be removed from the Company's Gas Plant in Service Balance. My adjustment is shown on my Schedule DM Surr-17.

c. Aircraft Equipment

**Q. What did Mr. Jacobson state regarding your removal of Aircraft Equipment?**

**A.** As stated previously, Mr. Jacobson stated that I did not consider the broader use for the Company owned aircraft, in that the Company uses its aircraft fleet for several support functions such as analyst meetings and board of director meetings. Mr. Jacobson stated that North Dakota gas customers are not charged for the use of aircraft for trips that are specifically related to business conducted in other states. (Jacobson rebuttal page 11). Mr. Jacobson stated that removing all air travel costs without considering like costs of commercial air travel would unfairly harm the Company.

**Q. What is your response?**

**A.** As I previously stated earlier in my testimony, the Company has not shown or provided any comparison of costs for commercial air travel, nor has the Company provided a breakdown of costs that is not related to aircraft uses (Response to 6.02). The Company should consider alternative travel arrangements within the state of North Dakota to conduct its business related to gas operations. (rail service, car rental, etc). The Company's shareholders should bear the costs of the chartered air travel that exceeds the cost of a commercial air flight.

B. Working Capital Components – Loss on Sale of Manufactured Homes

**Q. What did Mr. Jacobson state regarding your removal of the loss on manufactured homes?**

**A.** Mr. Jacobson stated that I did not understand the environment in which the Company operates in and the importance of the manufactured homes in order for the Company to provide safe and reliable service in areas impacted by the rapid expansion in oil development. (Jacobson rebuttal page 14). Mr. Jacobson stated that rental units were not available or too expensive relative to the Company's salary structure. The Company has few options regarding housing. Mr. Jacobson stated that the Commission approved the amortization of the loss on employee housing in the Company's most recent electric rate case in docket no. PU-16-666 following the same approach as requested in this proceeding.[2]

**Q. What is your response?**

**A.** I am maintaining my original argument that I stated in my direct testimony. I believe that issues such as Employee Housing should be made on a case by case basis and not be automatically accepted based upon individual allowances or disallowances contained within the entirety of a rate case settlement of a separate case. The Company should have been proactive in the procurement to obtain housing for its employees by coordinating with real estate agents in the area. As I indicated in my direct testimony, the Company should have accounted for this procurement of housing as an O&M expense and expensed as an actual cost to the Company in the period in which the housing costs were incurred. Actual costs should have been paid through the Company's operating expense and not through the Company's development of rate base.

[2] I have reviewed the Settlement Agreement and the Commission's Order in Case No. PU-16-666, and do not find any specific agreement or decision related to employee housing. In addition, the Company's argument about the settlement agreement in this response is inconsistent with its position regarding the prior settlement regarding incentive compensation.

C. Accumulated Deferred Income Taxes

**Q. Did the Company update its calculation regarding its Accumulated Deferred Income Tax (ADIT) to reflect the changes in the tax rate change under the TCJA?**

**A.** Yes. I previously explained how the Company accounted for the change in its ADIT due to the change in the tax rate under TCJA.

**Q. Do you accept the Company's adjustments and methodology?**

**A.** Yes. What I am adjusting is the difference between what the Company has included in its Rate Base (Utility Plant in Service) and what I have included in Rate Base. The Company had initially proposed an ADIT balance of $21,051,980 (pre-TJCA) shown on Exhibit TRJ-6 page 5 of 8. The Company has now proposed an ADIT balance of $19,640,679, a difference of $1,411,301. I am recommending an ADIT balance of $19,312,962, a difference of $327,717. This difference is due to my adjustments to the Company's Gas Plant in Service balance that I am recommending removal. My adjustment is shown on my Schedule DM Surr-19.

**Q. Does this conclude your Surrebuttal Testimony?**

**A.** Yes. I reserve the right to update my surrebuttal testimony in the event the Company revises its rebuttal filing.

## OPERATING INCOME SUMMARY

| | | (1) Company Present | Adjustments | Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|---|---|
| 1 | **Operating Revenues** | | | | | | |
| 2 | Sales | $ 106,410,946 | $ 3,575,388 | $ 109,986,334 | $ 1,329,776 | $ 107,740,722 | DM Surr-4 |
| 3 | Transportation | $ 2,197,896 | $ - | $ 2,197,896 | $ - | $ 2,197,896 | DM Surr-4 |
| 4 | Other | $ 3,527,788 | $ - | $ 3,527,788 | $ (462,280) | $ 3,065,508 | DM Surr-4 |
| 5 | **Total Revenues** | **$ 112,136,630** | **$ 3,575,388** | **$ 115,712,018** | **$ 867,496** | **$ 113,004,126** | |
| | % Increase | | 3.19% | | 0.774% | | |
| 6 | **Operating Expenses** | | | | | | |
| 7 | Operation and Maintenance | | | | | | |
| 8 | Cost of Gas | $ 70,913,006 | $ - | $ 70,913,006 | $ - | $ 70,913,006 | DM Surr-5 |
| 9 | Other Operation and Maintenance | $ 21,532,698 | $ - | $ 21,532,946 | $ (1,412,614) | $ 20,120,332 | DM Surr-5 |
| 10 | Depreciation Expense | $ 9,206,297 | $ - | $ 9,206,295 | $ (326,130) | $ 8,880,165 | DM Surr-13 |
| 11 | Taxes Other Than Income | $ 2,039,599 | $ - | $ 2,039,599 | $ (65,455) | $ 1,974,144 | DM Surr-14 |
| 12 | Income Taxes | $ 825,727 | $ 872,509 | $ 1,698,236 | $ (40,709) | $ 1,657,527 | DM Surr-15 |
| 13 | **Total Expenses** | $ 104,517,327 | $ 872,755 | $ 105,390,082 | $ (1,844,908) | $ 103,545,175 | |
| 14 | **Operating Income** | **$ 7,619,303** | **$ 2,702,633** | **$ 10,321,936** | **$ (862,984)** | **$ 9,458,951** | |
| 15 | **Rate Base** | **$ 136,861,860** | **$ -** | **$ 136,861,860** | **$ (4,569,818)** | **$ 132,292,041** | DM Surr-16 |
| 16 | **Rate of Return** | **4.850%** | | **7.542%** | | **7.150%** | |
| | | | 1.32293 | $ 10,321,732 | | $ 9,458,881 | |

(1) Company Statement J 3 of 3

## RATE OF RETURN

| | | Balance | Ratio | Cost | Required Return | References |
|---|---|---|---|---|---|---|
| 1 | **Company Proposed (1)** | | | | | |
| 2 | Long Term Debt | $ 642,930,015 | 43.036% | 5.282% | 2.273% | |
| 3 | Short Term Debt | $ 89,161,765 | 5.968% | 2.831% | 0.169% | |
| 4 | Preferred Stock | $ - | 0.000% | 0.000% | 0.000% | |
| 5 | Common Equity | $ 761,853,315 | 50.996% | 10.000% | 5.100% | |
| 6 | **Total** | **$ 1,493,945,095** | **100.000%** | | **7.542%** | |

(1) Company Statement D

| | | Balance | Ratio | Cost | Required Return | References |
|---|---|---|---|---|---|---|
| | **NDPSC Staff Proposed** | | | | | |
| 7 | Long Term Debt | $ 642,930,015 | 43.036% | 5.282% | 2.273% | |
| 8 | Short Term Debt | $ 89,161,765 | 5.968% | 2.831% | 0.169% | |
| 9 | Preferred Stock | $ - | 0.000% | 0.000% | 0.000% | |
| 10 | Common Equity | $ 761,853,315 | 50.996% | 9.230% | 4.707% | Exhibit MFG-8 Schedule 1 |
| 11 | **Total** | **$ 1,493,945,095** | **100.000%** | | **7.149%** | |

## GROSS UP FACTOR

| | (1) Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|
| Federal Tax Rate | 21.00000% | | 21.00000% | |
| State Tax Rate | 4.31000% | | 4.31000% | |
| Combined Federal and State | 24.40490% | | 24.40490% | |
| 1-tax rate | 75.59510% | | 75.59510% | |
| Gross Up Factor | 1.32284 | | 1.32284 | |

(1) Company Excel -Tax Rate and Inflation Schedule

## SUMMARY OF REVENUES

| | | (1) Company Present | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|
| 1 | **Sales** | | | | |
| 2 | Residential | $ 58,026,708 | $ - | $ 58,026,708 | |
| 3 | Propane | $ 174,581 | $ - | $ 174,581 | |
| 4 | Total Residential | **$ 58,201,289** | $ - | **$ 58,201,289** | |
| 5 | Air Force | | | | |
| 6 | Firm | $ 143,249 | $ - | $ 143,249 | |
| 7 | Interruptible | $ 1,426,091 | $ - | $ 1,426,091 | |
| 8 | Total Air Force | **$ 1,604,860** | $ - | **$ 1,604,860** | |
| 9 | Firm General | $ 43,789,385 | $ - | $ 43,789,385 | |
| 10 | Seasonal | $ 82,483 | $ - | $ 82,483 | |
| 11 | Propane | $ 200,119 | $ - | $ 200,119 | |
| 12 | Total Firm General | **$ 44,071,987** | $ - | **$ 44,071,987** | |
| 13 | Interruptible | | | | |
| 14 | Small Interruptible | $ 2,532,810 | $ - | $ 2,532,810 | |
| 15 | Large Interruptible | $ - | $ - | $ - | |
| 16 | Total Interruptible | **$ 2,532,810** | $ - | **$ 2,532,810** | |
| 17 | **Total Sales** | **$ 106,410,946** | $ - | **$ 106,410,946** | |
| 18 | **Transportation** | | | | |
| 19 | Small Interruptible | $ 870,115 | $ - | $ 870,115 | |
| 20 | Large Interruptible | $ 1,327,781 | $ - | $ 1,327,781 | |
| 21 | **Total Transportation** | **$ 2,197,896** | $ - | **$ 2,197,896** | |
| 22 | **Total Sales and Transportation** | **$ 108,608,842** | $ - | **$ 108,608,842** | Response 2.25 |
| 23 | **Miscellaneous Service Revenue** | | | | |
| 24 | Reconnect/Seasonal Fees | $ 30,948 | $ - | $ 30,948 | |
| 25 | NSF Check Fees | $ 18,900 | $ - | $ 18,900 | |
| 26 | MAFB Distribution System | $ 456,000 | $ - | $ 456,000 | |
| 27 | Other Misc. Service Revenue | $ 1,247 | $ - | $ 1,247 | |
| 28 | Total Miscellaneous Service Revenue | **$ 507,095** | $ - | **$ 507,095** | |
| 29 | **Rent from Property** | **$ 465,709** | $ (462,280) | **$ 3,429** | Response to 6.1 and 2.57 |
| 30 | **Other Operating Revenue** | | | | |
| 31 | Heskettt Pipeline Revenue | $ 2,274,906 | $ - | $ 2,274,906 | |
| 32 | Late Payment Revenue | $ 173,774 | $ - | $ 173,774 | |
| 33 | Penalty Revenue | $ 12,566 | $ - | $ 12,566 | |
| 34 | Other Revenue | $ 93,738 | $ - | $ 93,738 | |
| 35 | Total Other Revenue | **$ 3,527,788** | **$ (462,280)** | **$ 3,065,508** | |
| 36 | **Total Operating Revenue** | **$ 112,136,630** | **$ (462,280)** | **$ 111,674,350** | |

(1) Company Workpaper K1, Statement K
page 6 of 37

## SUMMARY OF O&M EXPENSES

| | | Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|
| 1 | Cost of Gas | $ 70,913,006 | $ - | $ 70,913,006 | DM Surr-6 |
| 2 | Other Gas Supply | $ 372,123 | $ (15,684) | $ 356,439 | DM Surr-7 |
| 3 | Distribution | $ 9,523,054 | $ (416,376) | $ 9,106,678 | DM Surr-8 |
| 4 | Customer Accounting | $ 2,942,096 | $ (110,962) | $ 2,831,134 | DM Surr-9 |
| 5 | Customer Service and Information | $ 254,198 | $ (52,449) | $ 201,749 | DM Surr-10 |
| 6 | Sales | $ 94,299 | $ (4,438) | $ 89,861 | DM Surr-11 |
| 7 | Administrative and General | $ 8,347,176 | $ (352,961) | $ 7,994,215 | DM Surr-12 |
| 8 | Aircraft Expenses | $ - | $ (446,796) | $ (446,796) | Response 6.1 and 6.2 |
| 9 | MDUR/FutureSource | $ - | $ (12,949) | $ (12,949) | Response to 6.2 |
| 10 | **Total O & M Expenses** | **$ 92,445,952** | **$ (1,412,614)** | **$ 91,033,338** | |

(1) Company Statement K page 7

**COST OF GAS**

| | (1) DK Adjusted for Distribution Loss | Commodity Charge | Projected Cost | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|---|
| Residential | 8,847,865.00 | 3.9930 | $ 35,329,525 | $ - | $ 35,329,525 | |
| Residential - Propane | 18,246.00 | 6.0110 | $ 109,677 | $ - | $ 109,677 | |
| Firm General Service | 8,030,076.00 | 3.9930 | $ 32,064,093 | $ - | $ 32,064,093 | |
| Optional Seasonal | 15,397.00 | 4.1000 | $ 63,128 | $ - | $ 63,128 | |
| Firm General - Propane | 26,513.00 | 6.0110 | $ 159,370 | $ - | $ 159,370 | |
| Air Force - Firm | 32,670.00 | 3.9930 | $ 130,451 | $ - | $ 130,451 | |
| Air Force - Interruptible - Contract | 457,577.00 | 2.9590 | $ 1,353,970 | $ - | $ 1,353,970 | |
| Small Interruptible | 575,462.00 | 2.9590 | $ 1,702,792 | $ - | $ 1,702,792 | |
| Large Interruptible | 0.00 | 2.9590 | $ - | $ - | $ - | |
| **Total Cost of Gas** | **18,003,806.00** | | **$ 70,913,006** | **$ -** | **$ 70,913,006** | |

(1) Company Statement K page 12 of 37

## OTHER GAS SUPPLY

| | | (1) Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|
| (2) | Labor - Premium OT | $ 288,810 | $ - | $ - | 2.24 (a) Attach A |
| (3) | Labor - Incentive Compensation | | $ (12,297) | $ - | |
| (4) | Labor - Bonus and Commission | | $ (8) | $ 276,505 | |
| | Subcontract Labor | $ 1,148 | $ (25) | $ 1,123 | Statement K p15 |
| | Vehicles & Work Equipment | $ 2,072 | $ (53) | $ 2,020 | Statement K p17 |
| | Software Maintenance | $ 6,572 | $ (143) | $ 6,429 | Statement K p21 |
| | All Other O&M | $ 73,521 | $ (3,159) | $ 70,362 | Statement K p27 |
| | **Total** | **$ 372,123** | **$ (15,684)** | **$ 356,439** | |

(1) Company Statement K pages 10/11 of 37

| | | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| (2) | **Premium Overtime** | $ 369 | $ 383 | $ 394 |
| | Average of 2016/2017 | | | $ 375.76 |
| | 3.00% Increase | | | $ 387.04 |
| | Adjustment | | | **$ 7** |
| (3) | **Incentive Compensation** | $ 18,162 | $ 19,464 | $ 20,047 |
| | Average of 2016/2017 | | | $ 18,813 |
| | 3.00% Increase | | | $ 19,377 |
| | Capped at 40% | | | $ 7,751 |
| | Adjustment | | | **$ 12,297** |
| (4) | **Bonus and Commission** | | $ 13 | $ 13 |
| | Capped at 40% | | | $ 5 |
| | Adjustment | | | **$ 8** |

**DISTRIBUTION**

| | | (1) Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|
| (2) | Labor - Premium OT | $ 6,513,565 | $ - | $ - | 2.24 (a) Attach A |
| (3) | Labor - Incentive Compensation | | $ (295,765) | | |
| (4) | Labor - Bonus and Commission | | $ (35,209) | $ 6,182,591 | |
| | Subcontract Labor | $ 1,310,455 | $ (28,460) | $ 1,281,995 | Statement K p15 |
| | Materials | $ 588,603 | $ (33,009) | $ 555,594 | Statement K p16 |
| | Vehicles & Work Equipment | $ 847,835 | $ (21,481) | $ 826,354 | Statement K p17 |
| | Company Consumption | $ 143,305 | $ - | $ 143,305 | Statement K p18 |
| | Postage | $ 4,785 | $ - | $ 4,785 | Statement K p20 |
| | Software Maintenance | $ 87,275 | $ (1,895) | $ 85,380 | Statement K p21 |
| | Building Rental | $ 28,895 | $ (628) | $ 28,267 | Statement K p22 |
| | All Other O&M | $ (1,664) | $ 71 | $ (1,593) | Statement K p27 |
| | **Total** | **$ 9,523,054** | **$ (416,376)** | **$ 9,106,678** | |

(1) Company Statement K pages 10/11 of 37

| | | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| (2) | **Premium Overtime** | $ 407,868 | $ 421,068 | $ 433,701 |
| | Average of 2016/2017 | | | $ 414,468 |
| | 3.00% Increase | | | $ 426,902 |
| | Adjustment | | | **$ 6,799** |
| (3) | **Incentive Compensation** | $ 436,882 | $ 468,158 | $ 482,203 |
| | Average of 2016/2017 | | | $ 452,520 |
| | 3.00% Increase | | | $ 466,096 |
| | Capped at 40% | | | $ 186,438 |
| | Adjustment | | | **$ 295,765** |
| (4) | **Bonus and Commissions** | | $ 58,682 | $ 58,682 |
| | Capped at 40% | | | $ 23,473 |
| | Adjustment | | | **$ 35,209** |

**CUSTOMER ACCOUNTING**

| | | Company Proposed (1) | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|
| (2) | Labor | $ 1,823,384 | $ - | $ - | 2.24(a) Attach A |
| (3) | Labor - Incentive Compensation | | $ (84,923) | | |
| (4) | Labor - Bonus and Commission | | $ (11,783) | $ 1,726,678 | |
| | Subcontract Labor | $ 60,759 | $ (1,320) | $ 59,439 | Statement K p15 |
| | Materials | $ 136 | $ (3) | $ 133 | Statement K p16 |
| | Vehicles & Work Equipment | $ 63,437 | $ (1,608) | $ 61,830 | Statement K p17 |
| | Uncollectible Accounts | $ 338,099 | $ - | $ 338,099 | Statement K p2, 19 |
| | Postage | $ 353,028 | $ - | $ 353,028 | Statement K p 20 |
| | Software Maintenance | $ 80,131 | $ (1,740) | $ 78,391 | Statement K p21 |
| | All Other O&M Expenses | $ 223,122 | $ (9,586) | $ 213,536 | Statement K p27 Response to 6.14 |
| | **Total** | **$ 2,942,096** | **$ (110,962)** | **$ 2,831,134** | |

(1) Company Statement K page 10/11 of 37

| | | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| (2) | **Premium Overtime** | $ 23,878 | $ 24,653 | $ 25,393 |
| | Average 2016/2017 | | | $ 24,266 |
| | 3.00% Increase | | | $ 24,993 |
| | Adjustment | | | **$ 399** |
| (3) | **Incentive Compensation** | $ 125,423 | $ 134,418 | $ 138,450 |
| | Average of 2016/2017 | | | $ 129,920 |
| | 3.00% Increase | | | $ 133,818 |
| | Capped at 40% | | | $ 53,527 |
| | Adjustment | | | **$ 84,923** |
| (4) | **Bonus and Commission** | | $ 19,638 | $ 19,638 |
| | Capped at 40% | | | $ 7,855 |
| | Adjustment | | | **$ 11,783** |

**CUSTOMER SERVICE AND INFORMATION**

| | | (1) Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|
| (2) | Labor - Incentive Compensation | $ 158,465 | $ (7,730) | $ 150,735 | 2.24 (a) Attach A |
| | Vehicles & Work Equipment | $ 3,668 | $ (93) | $ 3,575 | Statement K p17 |
| | Advertising | $ 88,987 | $ (44,494) | $ 44,494 | WP K126-136 |
| | All Other O&M | $ 3,078 | $ (132) | $ 2,946 | Statement K p27 |
| | **Total** | **$ 254,198** | **$ (52,449)** | **$ 201,749** | |

(1) Company Statement K page 10/11 of 37

| | | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| (2) | **Incentive Compensation** | $ 11,412 | $ 12,234 | $ 12,601 |
| | Average of 2016/2017 | | | $ 11,823 |
| | 3.00% Increase | | | $ 12,178 |
| | Capped at 40% | | | $ 4,871 |
| | Adjustment | | | **$ 7,730** |

**SALES**

| | | (1) Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|
| (2) | Labor - Premium OT | $ 78,878 | $ - | $ - | 2.24(a) Attach A |
| (3) | Labor - Incentive Compensation | | $ (3,612) | | |
| (4) | Labor - Bonus and Commission | | $ (385) | $ 74,881 | |
| | Subcontract Labor | $ 6,258 | $ (136) | $ 6,122 | Statement K p15 |
| | Vehicles & Work Equipment | $ 4,152 | $ (105) | $ 4,047 | Statement K p17 |
| | Postage | $ 353 | $ - | $ 353 | Statement K p20 |
| | All Other O&M | $ 4,658 | $ (200) | $ 4,458 | Statement k p27 |
| | **Total** | **$ 94,299** | **$ (4,438)** | **$ 89,861** | |

(1) Company Statement K page 10/11 of 37

| | | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| (2) | **Premium Overtime** | $ 124 | $ 127 | $ 131 |
| | Average 2016/2017 | | | $ 126 |
| | 3% Increase | | | $ 129 |
| | Adjustment | | | **$ 2** |
| (3) | **Incentive Compensation** | $ 5,348 | $ 5,720 | $ 5,892 |
| | Average 2016/2017 | | | $ 5,534 |
| | 3.00% Increase | | | $ 5,700 |
| | Capped at 40% | | | $ 2,280 |
| | Adjustment | | | **$ 3,612** |
| (4) | **Bonus and Commission** | | $ 642 | $ 642 |
| | Capped at 40% | | | $ 257 |
| | Adjustment | | | **$ 385** |

## ADMINISTRATIVE AND GENERAL

| | | (1) Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|
| (2) | Labor - Premium OT | $ 2,425,190 | $ - | $ - | 2.24 (a) Attach A |
| (3) | Labor - Incentive Compensation | | $ (97,568) | | |
| (4) | Labor - Bonus and Commission | | $ (105,490) | $ 2,222,132 | |
| | Benefits | $ 2,604,373 | $ - | $ 2,604,373 | Exhibit TRJ-4 |
| | Subcontract Labor | $ 351,230 | $ (7,628) | $ 343,602 | Statement K p 15 |
| | Materials | $ 28,119 | $ (611) | $ 27,508 | Statement K p 16 |
| | Vehicles & Work Equipment | $ 27,650 | $ (701) | $ 26,950 | Statement K p17 |
| | Company Consumption | $ 53,190 | $ - | $ 53,190 | |
| | Postage | $ 52,608 | $ - | $ 52,608 | Statement K p20 |
| | Software Maintenance | $ 324,925 | $ (7,057) | $ 317,868 | Statement K p21 |
| | Building Rental | $ 407,118 | $ (54,409) | $ 352,709 | Statement K p22 |
| | Advertising | $ 45,114 | $ (22,557) | $ 22,557 | Response 2.37 6.50 and WP K125 WP K126-136 |
| | Industry Dues | $ 71,088 | $ (6,844) | $ 64,244 | Statement K p24 |
| | Insurance | $ 661,418 | $ - | $ 661,418 | WP K137-145 Response 2.39 |
| | Regulatory Commission Expense | $ 129,124 | $ - | $ 129,124 | |
| | All Other O&M | $ 1,166,029 | $ (50,098) | $ 1,115,931 | Statement K p27 and 6.14 |
| | **Total** | **$ 8,347,176** | **$ (352,961)** | **$ 7,994,215** | |

| | | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| (2) | **Premium Overtime** | $ 9,162 | $ 9,478 | $ 9,762 |
| | Average 2016/2017 | | | $ 9,320 |
| | 3.00% Increase | | | $ 9,599 |
| | Adjustment | | | **$ 163** |
| (3) | **Incentive Compensation** | $ 144,119 | $ 154,437 | $ 159,071 |
| | Average of 2016/2017 | | | $ 149,278 |
| | 3.00% Increase | | | $ 153,757 |
| | Capped at 40% | | | $ 61,503 |
| | Adjustment | | | **$ 97,568** |
| (4) | **Bonus and Commission** | | $ 175,816 | $ 175,816 |
| | Capped at 40% | | | $ 70,326 |
| | Adjustment | | | **$ 105,490** |

**DEPRECIATION EXPENSE**

| Plant Account | (1) Company Proposed | Depreciation Rate | Depreciation Expense | Adjustment | NDPSC Staff | References |
|---|---|---|---|---|---|---|
| Distribution | $ 208,331,284 | 3.39% | $ 7,062,431 | $ - | $ 7,062,431 | |
| Distribution Additions | $ 12,499,737 | 3.39% | $ 423,741 | $ (241,239) | $ 182,502 | 2-52 response |
| Toal Distribution | $ 220,831,021 | | $ 7,486,172 | $ (241,239) | $ 7,244,933 | |
| **General** | | | | | | |
| Other | $ 2,022,410 | 4.67% | $ 94,447 | $ - | $ 94,447 | |
| Structures and Improvements | $ 2,236,515 | 2.42% | $ 54,124 | $ - | $ 54,124 | |
| Computer Equipment | $ 94,199 | 17.22% | $ 16,221 | $ - | $ 16,221 | |
| Vehicles | $ 4,268,049 | 6.94% | $ 296,203 | $ (8,942) | $ 287,260 | Response 2-18 |
| Work Equipment | $ 5,802,660 | 4.91% | $ 284,911 | $ (25,820) | $ 259,091 | Response 2-19 |
| Total General | $ 14,423,833 | | $ 745,904 | $ (34,762) | $ 711,142 | |
| General Intangible | $ 5,657,088 | 4.98% | $ 281,883 | $ - | $ 281,883 | |
| **Common** | | | | | | |
| Other | $ 2,322,559 | 4.80% | $ 111,483 | $ - | $ 111,483 | |
| Structures and Improvements | $ 8,984,923 | 0.85% | $ 76,372 | $ (6,685) | $ 69,687 | WP K151 |
| Computer Equipment | $ 830,115 | 20.00% | $ 166,023 | $ - | $ 166,023 | |
| Vehicles | $ 1,110,999 | 6.42% | $ 71,326 | $ (3,726) | $ 67,600 | WP K151 |
| Total Common | $ 13,248,596 | | $ 425,204 | $ (10,412) | $ 414,792 | |
| Common Intangible | $ 14,297,217 | 6.23% | $ 890,466 | $ - | $ 890,466 | |
| Amort of Preferred Stock | $ - | | $ 4,133 | $ - | $ 4,133 | |
| Amort of Gain on Building | $ - | | $ (17,564) | $ - | $ (17,564) | |
| Amort of Loss on EE Housing | $ - | | $ 39,717 | $ (39,717) | $ - | Statement L p18 |
| Acquisition Adjustment | $ 97,266 | 2.90% | $ 2,820 | $ 9 | $ 2,820 | |
| Total | $ 14,394,483 | | $ 919,572 | $ (39,717) | $ 879,855 | |
| **Total** | **$ 268,555,021** | | **$ 9,858,735** | **$ (326,130)** | **$ 9,532,605** | |
| Adjustments | | | | | | |
| General - Vehicles | | | $ (296,203) | $ - | $ (296,203) | |
| General - Work Equipment | | | $ (284,911) | $ - | $ (284,911) | |
| Common - Vehicles | | | $ (71,326) | $ - | $ (71,326) | |
| **Total Depreciation Expense** | **$ 268,555,021** | | **$ 9,206,295** | **$ (326,130)** | **$ 8,880,165** | |

(1) Company Statement K, p 30, 32 and Workpaper K151

TAXES OTHER THAN INCOME

| | (1) Company Projected | Tax Rate | Tax | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|---|
| **Ad Valorem Taxes** | | | | | | |
| Distribution Plant | $ 220,831,021 | 0.4569% | $ 1,008,977 | $ (12,686) | $ 996,291 | |
| General Plant | $ 14,423,833 | 0.4147% | $ 59,816 | $ (2,684) | $ 57,132 | |
| General Intangible Plant | $ 5,657,088 | 0.4861% | $ 27,499 | $ - | $ 27,499 | |
| Common Plant | $ 13,248,596 | 0.2714% | $ 35,957 | $ (2,287) | $ 33,670 | |
| Common Intangible Plant | $ 14,297,217 | 0.3281% | $ 46,909 | $ - | $ 46,909 | |
| **Total Ad Valorem Taxes** | **$ 268,457,755** | | **$ 1,179,158** | **$ (17,657)** | **$ 1,161,501** | Statement K p34 |
| Payroll Taxes | $ 11,288,292 | 7.30% | **$ 824,045** | **$ (47,798)** | **$ 776,247** | Statement K p35 |
| Franchise Taxes | | | $ 6,204 | $ - | $ 6,204 | |
| Delaware Taxes | | | $ 29,092 | $ - | $ 29,092 | |
| Other | | | $ 1,100 | $ - | $ 1,100 | |
| | | | **$ 2,039,599** | **$ (65,455)** | **$ 1,974,144** | |

(1) Company Statement K p 33, 34, 35

**INCOME TAXES**

| | (1) Company Present Rates | Adjustment | Company Proposed Rates | Adjustment | NDPSC Staff | References |
|---|---|---|---|---|---|---|
| **Total Operating Revenues** | **$ 112,136,630** | **$ 3,575,388** | **$ 115,712,018** | | **$ 113,004,126** | |
| Operating Expenses | | | | | | |
| Cost of Gas | $ 70,913,006 | | $ 70,913,006 | | $ 70,913,006 | |
| Other O&M Expenses | $ 21,532,946 | | $ 21,532,946 | | $ 20,120,332 | |
| Depreciation and Amortization | $ 9,206,295 | | $ 9,206,295 | | $ 8,880,165 | |
| Taxes Other than Income | $ 2,039,599 | | $ 2,039,599 | | $ 1,974,144 | |
| **Total Operating Expenses** | **$ 103,691,846** | | **$ 103,691,846** | | **$ 101,887,648** | |
| **Gross Operating Income** | **$ 8,444,784** | | **$ 12,020,172** | | **$ 11,116,479** | |
| AFUDC Equity Add Back | $ 59,300 | | $ 59,300 | | $ 59,300 | |
| Permanent Additions | $ 37,500 | | $ 37,500 | | $ 37,500 | |
| Interest Synchronization | $ 3,342,167 | | $ 3,342,167 | | $ 3,230,725 | (2) |
| **Taxable Income** | **$ 5,199,417** | | **$ 8,774,805** | | **$ 7,982,554** | |
| Federal and State Tax Rate | 24.4049% | | 24.4049% | | 24.4049% | |
| Total Federal and State Income Taxes | $ 1,268,913 | $ 872,570 | $ 2,141,482 | $ (193,348) | $ 1,948,134 | |
| ARAM Amortization | $ (406,254) | | $ (406,254) | $ - | $ (406,254) | |
| Amortized Excess DIT | $ 65,417 | | $ 65,417 | $ 152,639 | $ 218,056 | |
| Full Normalization | $ (102,409) | | $ (102,409) | | $ (102,409) | |
| Total Income Taxes | **$ 825,667** | **$ 872,570** | **$ 1,698,236** | **$ (40,709)** | **$ 1,657,527** | |

(1) Company Statement K, p 36

(2)

| | |
|---|---|
| Recommended Rate Base | $ 132,292,041 |
| Recommended Cost of Debt | 2.442% |
| Interest Synchronization | $ 3,230,725 |

## AVERAGE RATE BASE

| | (1) Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|
| Average Gas Plant In Service | $ 268,555,021 | $ (4,266,255) | $ 264,288,766 | DM Surr-17 |
| Accumulated Depreciation | $ 99,474,549 | $ (143,206) | $ 99,331,343 | DM Surr-18 |
| **Net Average Gas Plant In Service** | **$ 169,080,472** | **$ (4,409,461)** | **$ 164,957,423** | |
| **Average Working Capital** | | | | |
| Additions to Rate Base | | | | |
| Materials and Supplies | $ 2,070,029 | $ - | $ 2,070,029 | |
| Fuel Stock | $ 95,174 | $ - | $ 95,174 | |
| Prepayments | $ 249,029 | $ - | $ 249,029 | |
| Unamortized Loss on Debt | $ 470,255 | $ - | $ 470,255 | |
| Unamortized Redemption Cost of Preferred Stock | $ 59,934 | $ - | $ 59,934 | |
| Gain on Sale of Building | $ (281,515) | $ - | $ (281,515) | |
| Loss on Sale of Employee Housing | $ 774,487 | $ (774,487) | $ - | Response 6-15 |
| **Total Additions to Rate Base** | **$ 3,437,393** | **$ (774,487)** | **$ 2,662,906** | |
| **Sub-Total** | **$ 172,517,865** | | | |
| Deductions to Rate Base | | | | |
| Accumulated Deferred Income Taxes | $ 19,640,680 | $ (327,717) | $ 19,312,962 | DM Surr-19 |
| Customer Advances | $ 16,015,326 | $ - | $ 16,015,326 | |
| **Total Deductions to Rate Base** | **$ 35,656,006** | **$ (327,717)** | **$ 35,328,288** | |
| **Total Average Rate Base** | **$ 136,861,860** | **$ (4,569,818)** | **$ 132,292,041** | |

(1) Company Statement L p 1

## GAS UTILITY PLANT IN SERVICE

| | (1) Company Proposed | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|
| Distribution | $ 208,331,284 | $ - | $ 208,331,284 | |
| **Distribution 2018 Additions** | **$ 12,499,737** | $ (2,776,577) | **$ 9,723,160** | 2-52 response, Statement L pg 8 |
| Total | $ 220,831,021 | $ (2,776,577) | $ 218,054,444 | |
| General | | | | |
| Other | $ 1,816,010 | $ - | $ 1,816,010 | |
| **Other 2018 Additions** | **$ 206,400** | $ (36,644) | **$ 169,757** | 2-20 response |
| Structures and Improvememnts | $ 2,236,515 | $ - | $ 2,236,515 | |
| Computer Equipment | $ 94,199 | $ - | $ 94,199 | |
| Vehicles | $ 3,474,292 | $ (123,342) | $ 3,350,951 | 2-18 response |
| **Vehicles 2018 Additions** | **$ 793,757** | $ - | **$ 793,757** | |
| Work Equipment | $ 3,722,719 | $ (76,466) | $ 3,646,253 | 2-19 response |
| **Work Equipment 2018 Additions** | **$ 2,079,941** | $ (410,704) | **$ 1,669,237** | 2-19 response |
| Total | $ 14,423,833 | $ (647,155) | $ 13,776,678 | |
| General Intangibles | $ 5,657,088 | $ - | $ 5,657,088 | |
| Common | | | | |
| Other | $ 2,089,100 | $ - | $ 2,089,100 | |
| **Other 2018 Additions** | **$ 233,459** | $ - | **$ 233,459** | |
| Structures and Improvements | $ 8,883,220 | $ (786,486) | $ 8,096,734 | 6-1 response |
| **Structures and Improvements 2018 Additions** | **$ 101,703** | $ - | **$ 101,703** | |
| Computer Equipment | $ 739,277 | $ - | $ 739,277 | |
| **Computer Equipment 2018 Additions** | **$ 90,838** | $ - | **$ 90,838** | |
| Vehicles | $ 807,725 | $ - | $ 807,725 | |
| **Vehicles 2018 Additions** | **$ 303,274** | $ (56,037) | **$ 247,237** | 2-18 response |
| **Total** | $ 13,248,596 | $ (842,523) | $ 12,406,073 | |
| Common Intangible | $ 13,855,457 | $ - | $ 13,855,457 | |
| **Common Intangible 2018 Additions** | **$ 441,760** | $ - | **$ 441,760** | |
| Total | $ 14,297,217 | $ - | $ 14,297,217 | |
| Acquisition Adjustment | $ 97,266 | **$ -** | $ 97,266 | |
| Total Gas Plant In Service | **$ 251,804,152** | $ (986,294) | **$ 250,817,859** | |
| Total Gas Plant In Service 2018 Additions | **$ 16,750,869** | $ (3,279,962) | **$ 13,470,908** | |
| **Total** | **$ 268,555,021** | **$ (4,266,255)** | **$ 264,288,766** | |

(1) Company Statement L p 3, 4

**Montana-Dakota Utilities Co.**
**Test Year Ending December 31, 2018**

**North Dakota PSC**
**Case No. PU-17-295**

**Schedule DM Surr-18**

| ACCUMULATED DEPRECIATION | (1) Company Proposed 2017 | Depreciation Amortization 2018 | Retirements Removals 2018 | Ending Balance 2018 | Average Balance 2018 | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|---|---|---|
| **Distribution** | **$ 82,454,148** | **$ 7,486,172** | **$ (967,793)** | **$ 88,972,527** | **$ 85,713,338** | **$ (120,619)** | **$ 85,592,718** | DM Surr-13 |
| General | | | | | | | | |
| Other | $ 427,607 | $ 94,447 | $ (342,638) | $ 179,416 | $ 303,512 | $ - | $ 303,512 | |
| Structures and Improvements | $ 876,829 | $ 54,124 | $ - | $ 930,953 | $ 903,891 | $ - | $ 903,891 | |
| Computer Equipment | $ 89,019 | $ 16,221 | $ (16,817) | $ 88,423 | $ 88,721 | $ - | $ 88,721 | |
| Vehicles | $ 1,267,370 | $ 296,203 | $ (691,122) | $ 872,451 | $ 1,069,911 | $ (4,471) | $ 1,065,439 | DM Surr-13 |
| Work Equipment | $ (484,004) | $ 284,911 | $ (850,286) | $ (1,049,379) | $ (766,692) | $ (12,910) | $ (779,602) | DM Surr-13 |
| **Total General** | **$ 2,176,821** | **$ 745,906** | **$ (1,900,863)** | **$ 1,021,864** | **$ 1,599,343** | **$ (17,381)** | **$ 1,581,961** | |
| **General Intangible** | **$ 1,300,353** | **$ 281,883** | **$ -** | **$ 1,582,236** | **$ 1,441,295** | **$ -** | **$ 1,441,295** | |
| Common | | | | | | | | |
| Other | $ 729,494 | $ 111,483 | $ (387,535) | $ 453,442 | $ 591,468 | $ - | $ 591,468 | |
| Structures and Improvements | $ 2,779,595 | $ 76,372 | $ - | $ 2,855,967 | $ 2,817,781 | $ (3,343) | $ 2,814,438 | DM Surr-13 |
| Computer Equipment | $ 556,048 | $ 166,023 | $ (137,861) | $ 584,210 | $ 570,129 | $ - | $ 570,129 | |
| Vehicles | $ 233,934 | $ 71,326 | $ (168,547) | $ 136,713 | $ 185,324 | $ (1,863) | $ 183,460 | DM Surr-13 |
| **Total Common** | **$ 4,299,071** | **$ 425,204** | **$ (693,943)** | **$ 4,030,332** | **$ 4,164,702** | **$ (5,206)** | **$ 4,159,496** | |
| Common Intangible | $ 6,039,921 | $ 890,466 | $ - | $ 6,930,387 | $ 6,485,154 | $ - | $ 6,485,154 | |
| Amort. Of Preferred Stock Cost | $ - | $ 4,133 | $ - | $ - | $ - | $ - | $ - | |
| Amort. Of Gain on Building | $ - | $ (17,564) | $ - | $ - | $ - | $ - | $ - | |
| Amort. Of Loss on EE Housing | $ - | $ 39,717 | $ - | $ - | $ - | $ - | $ - | |
| Acquisition Adjustment | $ 69,309 | $ 2,820 | $ - | $ 72,129 | $ 70,719 | $ - | $ 70,719 | |
| **Total** | **$ 96,339,623** | **$ 9,858,737** | **$ (3,562,599)** | **$ 102,609,475** | **$ 99,474,549** | **$ (143,206)** | **$ 99,331,343** | |

(1) Company Statement L p 10
Company Statement K p 32

Montana-Dakota Utilities Co.
Test Year Ending December 31, 2018

North Dakota PSC
Case No. PU-17-295

Schedule DM Surr-19

ACCUMULATED DEFERRED INCOME TAXES

| | (1) Company Projected Bal. 2017 | Changes 2018 | Company Projected Bal. 2018 | Company Average Bal. 2018 | Adjustments | NDPSC Staff | References |
|---|---|---|---|---|---|---|---|
| Liberalized Depreciation | $ 26,381,441 | $ 133,896 | $ 26,515,337 | $ 26,515,337 | $ (34,949) | $ 26,480,388 | |
| Full Normalization | $ 390,017 | $ (102,409) | $ 287,608 | $ 338,813 | $ - | $ 338,813 | |
| Contribution In Aid of Construction | $ (1,504,053) | $ - | $ (1,504,053) | $ (1,504,053) | $ - | $ (1,504,053) | |
| Customer Advances | $ (6,034,533) | $ (150,893) | $ (6,185,426) | $ (6,109,980) | $ - | $ (6,109,980) | |
| Unamortized Loss on Debt | $ 192,885 | $ (22,332) | $ 170,553 | $ 181,719 | $ - | $ 181,719 | |
| Unamortized Redemption Cost of Preferred Stock | $ 23,437 | $ (1,562) | $ 21,875 | $ 22,656 | $ - | $ 22,656 | |
| Gain on Sale of Building | $ (110,151) | $ 6,665 | $ (103,486) | $ (106,819) | $ - | $ (106,819) | |
| Loss on Sale of Employee Housing | $ 300,275 | $ (15,014) | $ 285,261 | $ 292,768 | $ (292,768) | $ - | |
| Acquisition Adjustment | $ 10,771 | $ (1,066) | $ 9,705 | $ 10,238 | $ - | $ 10,238 | |
| **Balance** | **$ 19,650,089** | **$ (152,715)** | **$ 19,497,374** | **$ 19,640,680** | **$ (327,717)** | **$ 19,312,962** | |

(1)

**STATE OF NORTH DAKOTA**

**PUBLIC SERVICE COMMISSION**

**Montana Dakota Utilities, Co., a Division of MDU Resources Group, Inc. 2017 Natural Gas Rate Increase Application**

**Case No. PU-17-295**

**VERIFICATION**

STATE OF New Jersey )
) ss.
COUNTY OF Ocean )

Dante Mugrace, being first duly sworn on oath, deposes and states that he has read the surrebuttal testimony and exhibits submitted in the above captioned matter under his name, that they were prepared by him or under his direction, that he knows the contents thereof, and that the same are true and correct to the best of his knowledge and belief.

Dante Mugrace

Dante Mugrace

Subscribed and sworn to before me this 30 day of April, 2018.

P Singh

Notary Public
My Commission Expires: 1/22/2021

POOJA SINGH
NOTARY PUBLIC OF NEW JERSEY
My Commission Expires 1/22/2021