

**North Dakota Gas Rate Case
Case No. PU-17-295
Technical Hearing
May 30 - June 1, 2018**

**Travis R. Jacobson
Manager, Reg. Affairs
Exhibit No. MDU-13**



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**MONTANA-DAKOTA UTILITIES CO.
PROJECTED INCOME STATEMENT
NATURAL GAS UTILITY - NORTH DAKOTA**

	Projected Op. Income	Tax Reform Adjustment	Tax Reform Op. Income
Operating Revenues	\$112,136,630		\$112,136,630
Operating Expenses			
Operation & Maintenance	\$92,445,704		\$92,445,704
Depreciation	9,206,297		9,206,297
Taxes Other Than Income	2,039,599		2,039,599
Income Tax Expense			
Income Taxes	\$1,876,170	\$ (709,606)	\$ 1,166,564
Income Taxes - Plant - ARAM		(406,254)	(406,254)
Income Taxes - Non-Plant		65,417	65,417
Total Income Tax	\$1,876,170	(\$1,050,443)	\$825,727
Total Expenses	105,567,770	(1,050,443)	104,517,327
Net Operating Income	\$6,568,860	\$1,050,443	\$7,619,303
Required Revenue Increase	\$5,863,197	(\$2,287,809)	\$3,575,388

Tax rate adjusted
from 35% to 21%

Amortization of
Plant Excess
Deferred Taxes

Amortization of
Non-Plant Excess
Deferred Taxes



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MONTANA-DAKOTA UTILITIES CO.
PROJECTED RATE BASE
NATURAL GAS UTILITY - NORTH DAKOTA

	Projected Rate Base	Tax Reform Adjustment	Tax Reform Rate Base
Gas Plant in Service:			
Gross Utility Plant	\$268,555,021		\$268,555,021
Accumulated Reserve	99,474,551		99,474,551
Net Electric Plant in Service	\$169,080,470	\$0	\$169,080,470
Additions:			
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
Unamort. Redemption Cost of Pref. Stk.	59,934		59,934
Gain on Sale of Building	(281,515)		(281,515)
Loss on Sale of Employee Housing	774,487		774,487
Total Additions	\$3,437,393	\$0	\$3,437,393
Deductions:			
Accumulated Deferred Income Taxes	\$21,051,979	(\$1,411,300)	\$19,640,679
Customer Advances	16,015,326		16,015,326
Total Deductions	\$37,067,305	(\$1,411,300)	\$35,656,005
Total Rate Base	\$135,450,558	\$1,411,300	\$136,861,858

Elimination of bonus
tax depreciation in
2018 and lower tax
rate



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Interim Request

- \$4,561,074 effective September 19, 2017
- \$2,687,424 effective February 27, 2018
- Reduction of \$1,873,650
- Submit a refund plan to address revenue collected during 2017 and 2018 (reflecting full impact of TCJA effective 1/1/18)



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Reconciliation	
Amount	Issue
\$3,575	Montana-Dakota Position
<u>Adjustments - based on testimony of D. Murgace:</u>	
(\$703)	Bonus/Incentives
(702)	Return on Equity
(487)	Pipeline Replacement Projects
(166)	Inflationary Adjustments
(122)	Vehicles & Work Equip.
(110)	Aircraft
(84)	Employee Housing
(74)	Advertising and Dues
202	Non-plant EDIT - 3 year Amortization
\$1,329	PSC Staff Position - Surrebutal

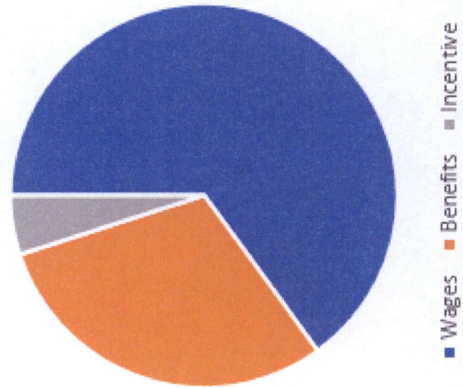


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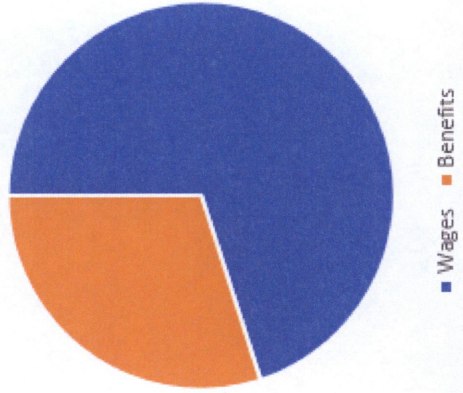
Incentives & Bonuses (At Risk Pay)

- Arbitrary 60 percent disallowance of at risk pay for **ALL employees**
- One component of 'Total Rewards' philosophy – combination of base wages, incentive and benefits
- Advocacy Staff did not consider any type of replacement for these costs
- Established expense based on employees achieving the goals
 - O&M target
 - Customer service
- Associated adjustment to payroll tax – overstated as the relationship between payroll tax and annual wages is not linear

Option 1



Option 2





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2018 Mains & Services Replacement Projects

- Replacement of mains and services has been a part of the capital additions in all gas cases
- The \$5.6 million in projects identified in 2018 are currently underway
- 2018 projects are similar in nature to the 2017 projects that were part of this rate case but not challenged



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Inflation

- Montana-Dakota included 2.22% inflationary adjustments for several categories for 2018:
 - Subcontract labor
 - Materials
 - Software maintenance
 - Building rental
 - All Other
- Consistent with past practices for projected period
- Adjustment was based on average of six published rates and all consistent



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2018 Forecasted Inflation

Source	Forecasted Rate 1/
Congressional Budget Office	1.97
Organisation for Economic Co-operation and Development	2.20
International Monetary Fund	2.60
PricewaterhouseCoopers	2.50
Federal Reserve Economic Data (FRED) 2/	1.95
Economist Intelligence Unit	2.10
Average Percent Change	2.22

1/ Inflation rate shown as year-over-year percent change.

2/ FRED uses Personal Consumption Expenditures rather than the Consumer Price Index.



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Vehicles and Work Equipment

- Montana-Dakota refined the projected vehicles and work equipment capital additions in a data response
- Advocacy Staff reduced both depreciation expense & O&M resulting in an error of \$38,488



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Aircraft and Associated Expenses

- Montana-Dakota has recovered aircraft expenses in rates for decades and did not propose adjustments in this case
- Advocacy Staff did not consider the cost of travel in absence of Company owned aircraft or pick up all rate base components
- Surrebuttal testimony changed a reduction in O&M of \$12,949 to an increase in O&M of \$12,949 resulting in an error of \$25,898
- Net impact of adjustment, including errors, is approximately \$110,000



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Employee Housing

- The Company utilized housing only during the Bakken housing shortage
- Gains on the sale of buildings (rate base deduct) in the same region were included by the Company but not removed by Advocacy Staff
- Housing units in question are the same housing units currently recovered in electric rates, along with gains on sale of buildings



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Industry Dues

- Consortium for Energy Efficiency
- Energy Solutions Center
- Utility Solid Waste Activities Group

Advertising

- Request is consistent with prior treatment in both electric and gas cases
- Provided types of invoices including:
 - Call before you dig (811)
 - Kids safety (Louie & Sniffy advertisements)
 - On-line account information
 - Telephone directories
- Arbitrary 50% disallowance



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System Safety and Integrity Program Funding Mechanism

- For projects starting in 2019 - Rate estimated to be \$0.42/month for residential customers
- Expect to file in March of each year with rates requested to be effective in October for projects and costs accepted by the Commission
- True up to actual spending



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Rate 88 - Cost of Gas Tariff

- Proposed a change of per unit filing threshold from \$0.10 to \$0.25
- The Cost of Gas is estimated each month
 - Timing of Company filings will not change
 - Largest variable in cost of gas process is a significant event happening between the time of filing and the gas usage/time of billing
- Customers will ultimately pay the same amount
- Expect the number of filings will be reduced by 50%
- Lower administrative burden and cost
- Fewer rate changes will reduce customer confusion



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**MONTANA-DAKOTA UTILITIES CO.
PROJECTED INCOME STATEMENT
NATURAL GAS UTILITY - NORTH DAKOTA**



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	Montana-Dakota Tax Reform	PSC Staff Surrebuttal	PSC Staff Adjustment	PSC Staff Surrebuttal	Adj. Description
	Op. Income	Op. Income	Op. Income	Op. Income	
Revenue:					
Sales	\$106,410,946	\$0	\$0	\$106,410,946	
Transportation	2,197,896	0	0	2,197,896	
Other	3,527,788	(462,280)	(462,280)	3,065,508	Aircraft
Total Operating Revenues	\$112,136,630	(\$462,280)	(\$462,280)	\$111,674,350	
Operating Expenses:					
Cost of Gas	\$70,913,006	\$0	\$0	\$70,913,006	
Labor	11,288,292	(654,770)	(654,770)	10,633,522	Bonus/Incentive
Benefits	2,627,191	0	0	2,627,191	
Subcontract Labor	1,729,850	(37,569)	(37,569)	1,692,281	Inflation
Materials	616,858	(33,623)	(33,623)	583,235	Inflation
Vehicles & Work Equipment	948,814	(24,041)	(24,041)	924,773	Method
Company Consumption	196,495	0	0	196,495	
Uncollectible Accounts	338,099	0	0	338,099	
Postage	410,774	0	0	410,774	
Software Maintenance	498,903	(10,835)	(10,835)	488,068	Inflation
Building Rental	436,013	(55,037)	(55,037)	380,976	Inflation/Aircraft
Advertising	134,101	(67,051)	(67,051)	67,050	50% Reduction
Industry Dues	71,088	(6,844)	(6,844)	64,244	Certain exclusions
Insurance	638,352	0	0	638,352	
Regulatory Commission	129,124	0	0	129,124	
Other Misc. Expenses	1,468,744	(63,099)	(63,099)	1,405,645	Inflation
Aircraft & MDUR / FutureSource	0	(459,745)	(459,745)	(459,745)	Aircraft
Total Operating Expenses	\$92,445,704	(\$1,412,614)	(\$1,412,614)	\$91,033,090	



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	Montana-Dakota Tax Reform	PSC Staff Surrebuttal Adjustment	PSC Staff Surrebuttal Op. Income	Adj. Description
Depreciation	\$9,206,297	(\$326,130)	\$8,880,167	SSIP/Vehicles/Housing
Taxes Other than Income				
Ad Valorem	\$1,179,158	(\$17,657)	\$1,161,501	SSIP Assets
Payroll Taxes	824,045	(47,798)	776,247	Bonus/Incentive
Other	36,396	0	36,396	
Total Taxes Other	\$2,039,599	(\$65,455)	\$1,974,144	
Income Taxes	\$1,166,564	\$354,729	\$1,521,293	
Income Taxes - Plant - ARAM	(406,254)		(406,254)	
Income Taxes - Non-Plant	65,417	152,639	218,056	Amortization period
Total Income Tax	\$825,727	\$507,368	\$1,333,095	
Total Expenses	\$104,517,327	(\$1,296,831)	\$103,220,496	
Net Operating Income	\$7,619,303	\$834,551	\$8,453,854	



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MONTANA-DAKOTA UTILITIES CO.
PROJECTED RATE BASE
NATURAL GAS UTILITY - NORTH DAKOTA

	Montana-Dakota Tax Reform Rate Base	PSC Staff Surrebuttal Adjustment	PSC Staff Surrebuttal Rate Base	
Gas Plant in Service:				
Gross Utility Plant	\$268,555,021	(\$4,266,255)	\$264,288,766	SSIP/vehicles/aircraft
Accumulated Reserve	99,474,551	(143,208)	99,331,343	SSIP/vehicles
Net Electric Plant in Service	\$169,080,470	(\$4,123,047)	\$164,957,423	
Additions:				
Materials and Supplies	\$2,070,029	\$0	\$2,070,029	
Fuel Stock	95,174	0	95,174	
Prepayments	249,029	0	249,029	
Unamortized Loss on Debt	470,255	0	470,255	
Unamort. Redemption Cost of Pref. Stk.	59,934	0	59,934	
Gain on Sale of Building	(281,515)	0	(281,515)	
Loss on Sale of Employee Housing	774,487	(774,487)	-	Employee Housing
Total Additions	\$3,437,393	(\$774,487)	\$2,662,906	
Deductions:				
Accumulated Deferred Income Taxes	\$19,640,679	(\$327,717)	\$19,312,962	
Customer Advances	16,015,326	-	16,015,326	
Total Deductions	\$35,656,005	(\$327,717)	\$35,328,288	
Total Rate Base	\$136,861,858	(\$4,569,817)	\$132,292,041	



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	<u>As Filed 1/</u>	<u>Revised 2/</u>	<u>Variance</u>
2017			
General:			
Vehicles	\$804,127	\$557,444	(\$246,683)
Work Equipment	2,060,489	1,907,557	(152,932)
Common:			
Vehicles	127,226	143,559	16,333
2018			
General:			
Vehicles	\$793,757	\$806,368	\$12,611
Work Equipment	2,079,941	1,258,534	(821,407)
Common:			
Vehicles	303,274	191,201	(112,073)
Total	<u>\$6,168,814</u>	<u>\$4,864,663</u>	<u>(\$1,304,151)</u>
Recommended Adjustment			(\$1,333,095)

1/ Statement L, page 6 - 9.

2/ Response Nos. 2.18 and 2.19



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