Direct 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

December 18, 2017

168 PU-17-295 Filed 05/30/2018 Pages: 98
Exhibit PSC-24 - Direct Testimony of Dante Mugrace - redacted
Public Service Commission

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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. What is your present occupation?

A. In my capacity as a Senior Consultant, I am responsible for evaluating and examining rate case and rate case related proceedings before various governmental entities, preparing expert testimony and reviewing and recommending revenue requirement proposals, as well as, offering opinions on economic policy and policy issues and methodologies used to set a value on a utility's rate base and cost of service components of revenue requirement.

Q. Please summarize your professional experience.

A. PCMG is an association of experts in the field of utility regulation and policy, economics, accounting and finance. PCMG's members have over 75 years' collective experience providing assistance to counsel and expert testimony regarding the economic regulation of electric, gas, water and wastewater utilities that operate under local, state and federal jurisdictions. PCMG brings to client engagements a consultative and collaborative approach to the identification of issues and the development of positions with strict adherence to client procedures and deadlines. PCMG focuses on areas regarding revenue requirement, cost of service and rate design and cost of capital and rate of return. Prior to my association with PCMG, I was employed by Snavely-King Majoros and Associates (SKM) from 2013 to 2015, in the same capacity as PCMG. Prior to SKM I was employed by the New Jersey Board of Public Utilities (NJBPU) from 1983 through my retirement in 2011. During my tenure at the NJBPU, I held various accounting, administrative and managerial positions. My last position was Bureau Chief of Rates in the Agency's Division of Water (Bureau Chief of Rates). I held this position for nearly 10 years. My CV is attached at Appendix A.

Q. What experience do you have in the area of utility rate setting procedures and other utility matters?

A. In my capacity as Bureau Chief of Rates, I was responsible for overseeing and managing the rate case process regarding administrative, financial and day-to-day functions of the bureau. My primary duties were to ensure that the regulated utilities were provided sufficient revenues to cover their operating expenses and the opportunity to earn a reasonable return on their plant investments. During my tenure at the NJBPU, I was involved in hundreds of rate and rate related proceedings that were resolved through settlement negotiations or litigated proceedings.

In my capacity as a Senior Consultant, I am and have been involved in rate and rate related proceedings (tracker mechanisms, pass-through of certain capital and operating costs and adjustment clauses) before the Commissions in the Commonwealth of Massachusetts and Pennsylvania and; the States of Maine, Maryland, New Jersey, New York, North Dakota and Ohio. I was involved in the Generic Proceedings to Establish Parameters for the Next Generation Performance Base Rate Plans before the Alberta Utilities Commission. I am currently involved in matters before the Federal Energy Regulatory Commission (FERC) regarding transmission formula rate plans.

Q. What is your educational background?

A. I hold a Master of Business Administration (MBA) degree with a concentration in Strategic Management from Pace University – Lubin School of Business in New York, NY. I hold a Master of Public Administration (MPA) degree from Kean University in Union, NJ. I hold a Bachelor of Science (BS) degree in Accounting from Saint Peter's University in Jersey City, NJ.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Advocacy Staff of the North Dakota Public Service Commission (NDPSC).

II. Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to compute and recommend a revenue requirement in the natural gas rate case proceeding of Montana-Dakota Utilities Co. (MDU or Company) that was filed with the NDPSC on July 21, 2017 (Case No. PU-17-295). Our firm has been retained to determine a revenue requirement based upon a test year ending December 31, 2018. I present my findings regarding MDU's test year rate base, revenues, operating expenses and net income at present rate revenue. Included in my recommended position on rate base and operating income, I am incorporating and relying on the recommendations of Dr. Marlon Griffing for cost of capital, and Dr. Karl Pavlovic for cost of service and rate design, Depreciation Expense and System Safety and Integrity Program (SSIP).

Q. Have you reviewed and examined the Company's testimony and accompanying exhibits in this proceeding?

A. Yes, I have reviewed MDU's testimony, statements, exhibits and the Company's responses to data requests propounded by Advocacy Staff and PCMG.

Q. Have you prepared schedules to accompany your testimony?

A. Yes. I have prepared Schedules DM-1 through DM-19.

Q. Please summarize the rate relief proposed by MDU in this proceeding.

A. On July 21, 2017, the Company filed an application to increase rates for natural gas service in North Dakota. The Company requests additional annual revenues of \$5,868,389 or 5.4%.[1] The revenue requirement increase is predicated upon a 2018 future test year ending December 31, 2018. The Company has proposed an overall rate of return of 7.542% which includes a return on common equity of 10.00%. The Company has computed its rate base in the amount of \$135,450,558 based upon average balances of plant investments and 13-month average balances of average working capital (Materials and Supplies, Fuel Stock, Prepayments). In computing the Company's revenue requirement increase, the Company multiplied its total average Rate Base of \$135,450,558 multiplied by the proposed Rate of Return of 7.542% to compute its Operating Income of \$10,215,681. It then subtracted its Operating Income at Present Rates of \$6,568,860 to arrive at additional revenue requirement of \$3,646,821.[2] The

[1] This increase is based upon total Sales and Transportation Revenues at Projected 2018 Current Rate Revenue of \$108,608,842, as per Company Statement K, page 2 of 37. Other difference due to rounding.
[2] Company Statement J page 3 of 3.

Company multiplied this about by its gross up factor of 1.60776x to arrive at its revenue requirement increase of $5,863,197.[3]

Q. Do you accept the Company's proposed 2018 future test year period ending December 31, 2018?

A. Yes. I accept the Company's test year period.

Q. Please summarize your findings and recommendations.

A. Based upon the use of the Company's future test year period ending December 31, 2018, I have the following recommendations:

1. My recommended rate base balance is $130,899,926, which is $4,550,633 lower than the Company's proposed rate base balance of $135,450,558.
2. My rate of return is based upon the recommendation of Dr. Marlon Griffing which recommends an overall return of 6.990%, which includes a common equity component of 8.910%.
3. My recommended operating revenues at present rates is $111,674,350, which is $462,280 less than the Company's operating revenues at present rates of $112,136,630.
4. My overall revenue requirement increase based upon an overall rate of return of 6.990% is $2,000,081, or 1.784% which is $3,863,116 lower than the Company's proposed revenue requirement increase of $5,863,197,[4] or 5.23%.

The revenue requirement impact on my recommendations are shown on my Schedule DM-1.

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[3] Gross up factor as per Company Excel -Tax Rate and Inflation Schedule, and as per my Schedule DM-3. Differences due to rounding.

[4] This increase is as per Company Statement J, page 3 of 3. Total proposed increase of $5,863,197 divided by Total Company Revenues at Present Rates of $112,136,630.

Q. How is the remainder of your testimony organized?

A. The remainder of my testimony is organized by documenting and explaining adjustments to various rate base components and net operating income components to arrive at my recommended revenue requirement increase.

III. Revenue Requirement Issues

A. Operating Revenues

Q. What has the Company proposed regarding its total Operating Revenues at Present Rates for the Projected Test Year 2018?

A. The Company proposed total Present Rate Revenues of $112,136,630 is shown on Company Statement K, page 1 of 37. The Company provided a breakdown of the Present Rate Revenue as follows:

• Sales Revenue	$106,410,946
• Transportation Revenue	$ 2,197,896
• Other Operating Revenue	$ 3,527,788
Total	$112,136,630

Included in Other Operating Revenues are $2,274,906 associated with the Company's Heskett III Pipeline of which a portion is assigned to gas operations upon completion of the town border station and pipeline serving Mandan, ND.

Q. What adjustments do you have regarding the Company's Present Rate Revenues of $112,136,630?

A. I made two adjustments to the Company's Present Rate Revenues. The first adjustment is to remove the revenues associated with the Company's rent from property-buildings related to the sale of Company owned employee housing. Since I removed the recovery costs from rate base, I am removing the revenues in the amount of $11,691 as shown on Company Workpaper K87 and in response to Data Request No. 2.57. The second adjustment is to remove the revenues associated with the Company's revenues it receives from aircraft owned by FutureSource (response to Data Request No. 6.1). The revenues are shown and accounted for in the Company's Rent from Property-General Office COS (WP K87) in the amount of $450,589. My total Present Rate Revenues is $111,674,350, an adjustment of $462,280 and is shown on my Schedule DM – 4.

Q. Do you have any other concerns regarding the Company's Other Revenues?

A. While I don't have an adjustment to the Company's Other Revenues, I do have a concern regarding the Company's Late Payment Revenues of $173,571 and the fact that the Company does not track the number of customers that pay late payment charges. In response to Data Request No. 2.57, the Company stated that a customer is assessed a late payment charge if the amount due is not paid by the due date shown on the customer's bill. I believe the tracking of the number of customers assessed late payment charges is an important function that the Company should track and keep abreast of. Customers who pay late may wind up being in default and may need assistance in paying their utility bill. If the late payment charges are being assessed from the same customers, then it is important for the Company to track these customers. I believe the Commission should require the Company to track the number of customers being assessed and paying late payment charges as the Company may be able to work with the customer before they default and need a payment plan in order to keep their gas service connected.

B. Cost of Gas

Q. What has the Company proposed regarding its Cost of Gas?

A. The Company proposed total projected Cost of Gas of $70,913,006 as shown on Company Schedule K page 12 of 37. The Company utilized projected sales volumes, adjusted for losses, and the cost of gas calculated in the May 2017 Purchased Gas Cost Adjustment. The Company also utilized a distribution loss factor of 0.45% which the Company claims represents the current loss factor. The Company has not performed any studies to document their loss factor is correct.

Q. What changes do you have regarding the Company's Cost of Gas?

A. I accept the Company's total projected Cost of Gas of $70,913,006, as well as, the Company's distribution loss factor of 0.45%. (Schedule DM-6). However, I recommend that the Company perform a study as part of their next rate case to document that the loss factor they are currently using is appropriate.

C. Other Gas Supply

Q. What has the Company proposed regarding its Other Gas Supply Expenses?

A. The Company proposed Projected 2018 expenses related to Other Gas Supply is $372,123, as shown on Company Statement K page 10 of 37. The Company provided a breakdown of the components of Other Gas Supply Expenses as follows:

- Labor $288,810
- Subcontract Labor $ 1,148
- Vehicles & Work Equip. $ 2,072

- Software Maintenance $ 6,572
- All Other O&M <u>$ 73,521</u>

  Total $372,123

Q. What changes do you have regarding the Company's Other Gas Supply Expenses?

A. I have several adjustments to the Company's Other Gas Supply. My first adjustment is to the Company's Labor of $288,810. I have made three adjustments to Company Labor – Premium Overtime, Incentive Compensation and Bonus and Commission.

<u>Labor Expenses</u>

Q. Please explain your first adjustment regarding Labor Expense.

A. With respect to the Company's Premium Overtime, I first reviewed the response to Data Request No. 2.24 (a) Attachment A, which is an analysis of Labor Expense by Function, Object and Responsibility for the years 2015 through August 2017. The Premium Overtime in 2015 was particularly high ($506,090) as compared to the 2016/2017 levels ($441,401 and $455,702- WP K92). Given that Premium Overtime varies from year to year, and it was declining, I believe it is appropriate to average the costs for 2016 and projected 2017. I allocated the Labor costs for all of the Company's accounts (Other Gas Supply, Distribution, Customer Accounts, Customer Service, Sales and A&G) by using the Premium Overtime for 2016 Other Gas Supply to total 2016 Premium Overtime ratios shown in the response to Data Request No. 2.24 (a) Attachment A:

	2016	2017[5]	2018
Other Gas Supply	$369	$383	$394
Distribution	$407,868	$421,068	$433,701
Customer Accounts	$23,878	$24,607	$25,393
Customer Service	$0	$0	$0
Sales	$124	$91	$131
A&G	$9,162	$9,114	$9,762
Total	**$441,401**	**$455,263**	**$469,381**[6]

The Premium Overtime - Other Gas Supply of $369 in 2016 and the Premium Overtime of $383 for 2017 averages out to be $376. I then added the Company's proposed 3% salary increase for 2018 to arrive at Premium Overtime of $387. I then adjusted that by the Company's level of $394, for an adjustment of $7. My recommendation is shown on my Schedule DM-7.

Q. What is your second adjustment to Labor Expense?

A. My second adjustment is to the Company's Incentive Compensation. I performed the same analysis as I did for the Premium Overtime. I averaged out the Incentive Compensation for 2016 and 2017 and used the ratios for all of the Company's Incentive Compensation to total Incentive Compensation as I did above for the Company's Premium Overtime. Incentive Compensation is also an expense that varies from year to year depending on the level of goals and matrices that are achieved. The Company did not have any Incentive Compensation in year 2015 (response to Data Request No. 2.24 (a) Attachment A).

[5] As Per Workpaper K92 for 2017 and 2018 periods.

[6] Difference from the Company's as filed Premium Overtime level and as stated above is due to rounding. I use these amounts for my adjustments for all of the Company' Labor Expense adjustments.

	2016	2017	2018
Other Gas Supply	$18,162	$19,464	$20,048
Distribution	$436,882	$468,158	$482,203
Customer Accounts	$125,423	$134,418	$138,450
Customer Service	$11,412	$12,234	$12,601
Sales	$5,348	$5,720	$5,891
A&G	$144,119	$154,437	$159,070
Total	**$741,346**	**$794,431**	**$818,263**

The Incentive Compensation for Other Gas Services for 2016 is $18,162, and for 2017 is $19,464 which averages out to $18,813. I then added the Company's 3% salary increase for 2018 to arrive at Incentive Compensation of $19,377. I then adjusted that amount by 60% and capped the Incentive Compensation to 40% or $7,751. This 60% reduction in Incentive Compensation and Bonuses are consistent with the Commission decision in in Case No. PU-10-124. Incentive Compensation and Bonuses are established to improve Company performance with the intention of benefitting Company shareholders. Ratepayers should not be required to pay these costs because they do not provide any benefits to them.

Q. Are there other reasons for reducing Incentive Compensation and Bonuses by 60%?

A. In response to Data Request No. 2.24 (e), the Company was asked to provide its Incentive Plan **(Confidential begins here):** [redacted]

[redacted]

[redacted]

- [redacted] **(Confidential ends here).**

In response to Data Request 6.07 (a) the Company stated that the employees will be eligible for a payout based upon the target incentive achieved and whether customer goals have been met. However, the Company has not determined whether the achievement of the goals and financial targets have been met for 2017. This will be determined in February 2018. Based upon the achievement of these goals, the financial target will be used to determine the percentage of payout. Given this information, it is unclear and difficult to determine the actual Incentive Compensation and Bonus payout for Company employees. The Company has not provided any evidence to show how its Incentive Plan provides benefits to its employees through additional pay, nor has provided any evidence on whether these incentive payouts benefit ratepayers. Further, in section (g) of the above Data Request, the Company relies on industry surveys to support its customer service goals. A review of this survey shows that it is a questionnaire, but there is no follow up information whether or not the Company has achieved the goals based on the results of the questionnaire survey. The Company stated that to achieve a customer satisfaction goal, Montana-Dakota must be within the top 35 of the approximately 80 companies surveyed, but has not provided any further follow up.

(Confidential begins here) [redacted]

[redacted][7] **(Confidential ends here).** There is nothing in the Company's filing or in its data requests that show that bargained employees had actually achieved any efficiencies

The only bullet point that indicates any benefit to customers is the third bullet point that states **(Confidential begins here)** [redacted] **(Confidential ends here).** The Company has the burden of proof to shown that its Incentive Compensation is reasonable and benefits North Dakota gas ratepayers.

Q. Are there any other reasons for reducing the Company's Incentive Compensation and Bonuses by 60%?

A. Yes. In the same Data Request No. 2.24 (e), Short-Term Incentive Compensation Plan for its Non-Bargained employees the Plan is designed to: **(Confidential begins here).**

[redacted]

- [redacted]

(Confidential ends here)

Under this Incentive Plan there is nothing that shows the provision to provide superior customer service. Rather it appears that this Incentive Plan focuses on Company objectives and improvement in standards for performance and organizational effectiveness that leads to positive business results. As I indicated

[7] Data Response 2.24 (e) page 2 of 5.

above, the Company has not provided any evidence to show that the objective and goals have been achieved and employees were entitled to Incentive Compensation. For each of my adjustments to the Company's Incentive Compensation and Bonus and Commissions, under the Company's remaining Expense Functions - Distribution, Customer Accounting, Customer Service & Information, Sales and Administrative & General, I am relying on the same arguments as I testified to here.

Q. What is your third adjustment to Labor Expense?

A. My third adjustment is to the Company's Bonus and Commission. I performed the same analysis as I did for the Company's Incentive Compensation. I did not average out the Bonus and Commission as I did for the Company's Incentive Compensation as these costs have been reduced to eliminate the Retention Payments and MDU Resource Stock Compensation beginning in 2017. The Company has included a total of $254,806 for both years 2017 and Projected 2018. I did use the ratios for all of the Company's accounts to total Bonus and Commission.

	2017/2018
Other Gas Supply	$13
Distribution	$58,682
Customer Accounts	$19,638
Sales	$642
A&G	$175,816
Total	**$254,801**[8]

[8] Difference due to rounding

For Bonus and Commission - Other Gas Supply I capped the $13 to 40% in the same manner as I did for Incentive Compensation as the Commission applied in Case No. PU-10-124 above, and for the reasons previously testified to. My adjustment reduced the Bonus and Commission to $5 and is shown on my Schedule DM-7.

Subcontract Labor

Q. What is your next adjustment to the Company's Other Gas Supply?

A. My next adjustment to the Company's Other Gas Supply is to Subcontract Labor. The Company included $1,148 of Subcontract Labor as shown on Company Statement K, page 15. Included in that amount is an inflation factor of 2.22% based upon an average of six indices (Workpaper K96). The Company included a 2.22% increase based on the inflation factor when appropriate (Jacobson testimony page 8). In response to Data Request No. 2.31, the Company indicated that most contracts for 2018 have not been finalized. The Company also indicated that a 2.5% adjustment for a multi-leak survey contract is included for each year of that contract.

Q. What is your recommendation?

A. My recommendation is to remove the 2.22% inflation increase as these types of increases are not considered known and measurable and do not reflect true costs of doing business. In response to Data Request No. 2.31 Attachment A, the Company's 2.5% contract increase is for performance based escalation adjustment (page 12 of 12). The Company has not provided any results as to whether the Contractor has met any target agreed to by the Company and the Contractor. The Surveys were to be completed by October 31 of each contracted year, but the Company has not furnished these surveys to evaluate the performance of the

Contractor. My removal of the 2.22% inflation increase reduces the Company's Subcontract Labor by $25 to $1,123 and is shown on my Schedule DM-7.

<u>Vehicles & Work Equipment</u>

Q. What is your next adjustment to the Company's Other Gas Supply?

A. My next adjustment is to the Company's Vehicles & Work Equipment. The Company has included a total cost of $2,072 as shown on Statement K, page 17. In total, the expenses in this category has increased from $574,849 (Data Request No. 2.33) to a Projected level of $948,814 in 2018, a 60% increase. This increase is due to the increase in the Depreciation Expense and the change from the current vs. proposed Depreciation Rates in this filing, and the way the Company accounts for its vehicles and work equipment which is directly attributable to the work performed rather than being allocated to electric and gas operations. (Workpaper pages 97, 98 and 99). In response to Data Request No. 2.3 the Company stated that the costs aren't increasing as they are offset by salvage costs.

Q. What is your recommendation?

A. My recommendation is to average out the Company's Vehicles and Work Equipment using the 2016-2018 average to take into account the change in the way the Company accounts for its vehicles and work equipment directly attributable to work performed rather than being allocated to any specific jurisdiction. Also, in response to Data Request Nos. 2.18 and 2.19, the Company stated that General and Common Vehicles are allocated without regard to where the assets will ultimately be used, and less specific allocation factors are used for budgeting utility and jurisdictional allocations. It is unclear how Vehicles and Work Equipment are actually being charged to the North Dakota gas operations and it is appropriate to use a three-year average to set the costs in 2018. My three-year average is ($1,291+$1,967+$2,072)/3 = $1,777 or an adjustment of $295. My adjustment is shown on my Schedule DM-7.

<u>Software Maintenance</u>

Q. What is your next adjustment to the Company's Other Gas Supply?

A. My next adjustment is to the Company's Software Maintenance costs of $6,572 shown on Statement K, page 21. The Company included a 2.22% inflation increase over 2016 and 2017 costs of $6,429. The Company stated in response to Data Request No. 2.36 that it is currently negotiating several software agreements. In reviewing these agreements, the only indication of increases is an escalation fee (Attachment A, page 2 of 11, section 7 "not more than 10%," and Attachment B, page 3 part 4 of a "5%" increase). However, Statement K, page 21 only includes a 2.22% increase for all Software Expenses. The Company further stated that in 2016, the invoices for the Software Maintenance were recorded as prepaid expenses and are being expensed in 2017. (response to Data Request No. 2.36).

Q. What is your recommendation?

A. My recommendation is to remove the 2.22% inflation increase from the Company's Software Maintenance costs of $6,572, which reduces the expense by $143 to $6,429. As stated in the response to Data Request 2.36 the Company is in the process of negotiating several software agreements, which have not been formally executed. Given this, I am recommending that the Software Maintenance cost be maintained at the 2017 level. As indicated above, general inflation increases are not known and measurable and do not reflect the true cost of doing business.

All Other O&M Expenses

Q. What is your final adjustment to the Company's Other Gas Supply?

A. My final adjustment is to the Company's All Other O&M expenses of $73,521 as shown on Company Statement K, page 27. The Company included a 2.22% inflation increase to set 2017 expense levels, and another 2.22% inflation increase to set 2018 expense levels.

Q. What is your recommendation?

A. My recommendation is to remove the 2.22% inflation increases for both the 2017 and the 2018 periods. The Company has not provided reasons for the increase to this expense but for the 2.22% inflation increase. The 2.22% inflation increase is not a true cost and not known and measurable. It is merely a blanket increase across all expense categories. My adjustment removes the Company's inflation related increase to arrive at a cost of $70,362, an adjustment of $3,159. My recommendation is shown on my Schedule DM-7.

D. Distribution

Q. What has the Company propose regarding its level of Distribution Expenses?

A. The Company propose Projected 2018 Distribution Expenses in the amount of $9,523,054 as shown on Company Statement K, page 7 and 10-11 of 37. The Company provided a breakdown of its Distribution Expenses as follows:

- Labor $6,513,565
- Subcontract Labor $1,310,455
- Materials $ 588,603
- Vehicles & Work Equip. $ 847,835
- Company Consumption $ 143,305

•	Postage	$ 4,785
•	Software Maintenance	$ 87,275
•	Building Rental	$ 28,895
•	All Other O&M	$ (1,664)
	Total	$9,523,054

Q. What changes do you have regarding the Company's proposed Distribution Expenses?

A. I have several adjustments to the Company's Distribution Expenses. My first adjustment is to the Company's Labor Expense of $6,513,565. I have made three adjustments to Company Labor – Premium Overtime, Incentive Compensation and Bonus and Commission.

Labor Expenses

Q. Please explain your first adjustment to Labor Expense.

A. In the same manner as I adjusted Labor Expense in the Company's Other Gas Supply Expenses, I am adjusting the Company's Distribution Labor Expense. I reviewed the Company's Premium Overtime related to Distribution Expenses for the years 2015 through August 2017 provided in response to Data Request No. 2.24 (a) Attachment A. As indicated previously in my testimony, Premium Overtime was particularly high in in 2015 as compared to the 2016/2017 periods and given the fluctuations from year to year I believe an averaging the costs for 2016 and projected 2017 is appropriate. I allocated the Labor costs for all of the Company's accounts by using the Premium Overtime for 2016 Distribution to total 2016 Premium Overtime ratios shown in response to Data Request No. 2.24 (a) Attachment A, and shown on page 10 of my testimony.

Q. What did the Company propose with regard to its Premium Overtime?

A. The Company's proposed Premium Overtime for Distribution is $433,701.

Q. What is your recommendation?

A. I averaged out the Company's Premium Overtime for 2016 of $407,868 and for 2017 of $421,068 which equals $414,468; and by including the 3.00% increase the Premium Overtime becomes $426,902. This is $6,799 less than the Company's proposed Premium Overtime expense of $433,701. My recommendation is shown on my Schedule DM-8.

Q. What is your second adjustment to Labor Expense?

A. My second adjustment is to the Company's Incentive Compensation. The Company proposed Incentive Compensation costs of $482,203. I performed the same ratio analysis as I did for the Company's Premium Overtime and as shown on page 11 of my testimony. I averaged the Incentive Compensation levels for the 2016 ($436,882) and 2017 ($468,158) periods which equals $452,520. This type of expense varies from year to year depending on the goals and matrices achieved. As previously stated the Company did not have any or account for any Incentive Compensation in year 2015 (response to Data Request No. 2.24 (a) Attachment A). I then adjusted the average amount of Incentive Compensation of $452,520 by applying the 3.00% salary increase to arrive at a balance of $466,096.

Q. What is your recommendation?

A. Pursuant to the Commission's 40% cap on Incentive Compensation in Case No. PU-10-124, and the reasons I previously testified to, I reduced the Company's balance from $482,203 to $186,438, an adjustment of $295,765. My recommendation is shown on my Schedule DM-8.

Q. What is your third adjustment to Labor Expense?

A. My third adjustment is to the Company's Bonus and Commission. I performed the same analysis as I did for the Incentive Compensation, but I did not average out the Bonus and Commission because these costs have been reduced to eliminate the Retention Payments and MDU Resource Stock Compensation beginning in 2017. The Company has included a total level of Bonus and Commission of $254,806 for both years 2017 and 2018. The level of Bonus and Commission expenses related to Distribution is $58,682 and shown previously in my testimony on page 14.

Q. What is your recommendation?

A. I capped the Company's Bonus and Commission expense to 40% as I did for the Company's Incentive Compensation and as the Commission applied in Case No. PU-10-124. My adjustment reduces the Company's expense down to $23,473, or an adjustment of $35,209. My recommendation is shown on my Schedule DM-8.

<u>Subcontract Labor</u>

Q. What is your next adjustment to the Company's Distribution Expenses?

A. My next adjustment is to the Company's Subcontract Labor. The Company included $1,310,455 as shown on Statement K, page 15. Included in that amount is an inflation factor of 2.22%. The Company indicated that the Projected year of 2017 is expected to remain consistent with the Per Books year of 2016. As indicated previously in my testimony, the Company stated that most contracts for 2018 have not been finalized.

Q. What is your recommendation?

A. My recommendation is to remove the Company's proposed 2.22% inflation increase as these types of increases are not known and measurable and do not reflect the true costs of doing business. I am recommending keeping these costs at the 2017 level of $1,281,995, a reduction of $28,460. As indicated previously, the Company stated that there is a 2.5% contract increase, which is related to a performance based escalation adjustment, however, the Company has not provided any results as to whether the Contractor has met any targets agreed to by the Company and the Contractor. (response to Data Request No. 2.31, Attachment A, page 12 of 12). My recommendation is shown on my Schedule DM-8.

<u>Materials</u>

Q. What is your next adjustment to the Company's Distribution Expense?

A. My next adjustment is to the Company's Materials. The Company included $588,603 of Materials as shown on Statement K page 16. Included in those costs is an adjustment of 5.94%. In response to Data Request No. 2.32, the Company indicated that it has not been notified of specific cost increases but adjusted the Projected 2018 amount to reflect average expected inflation.

Q. What is your recommendation?

A. My recommendation is to remove the 5.94% increase or $33,009 from the Company's Materials Expense. The Company increased this expense only to account for expected inflation. Given that the Company has not been specifically notified of any cost increases, it is appropriate to keep the Material Expense at 2017 level or $555,594. My recommendation is shown on my Schedule DM-8.

Vehicles and Work Equipment

Q. What is your next adjustment to the Company's Distribution Expense?

A. My next adjustment is to the Company's Vehicles and Work Equipment. The Company included $847,835 for Distribution Costs as shown in Statement K page 17. As previously indicated the total costs for Vehicles and Work Equipment has increased from $574,849 in 2015 to a projected cost of $948,814 in 2018. As previously stated in my testimony on page 16, the Company indicated that the increase was due to the increase in the Depreciation Rates and the change from the current vs. proposed Depreciation Rates in this filing, and the way the Company accounts for its vehicles and work equipment.

Q. What is your recommendation?

A. My recommendation is to average out the Company's Vehicles and Work Equipment using the 2016-2018 average to take into account the change in the way the Company accounts for its vehicles and work equipment directly attributable to work performed rather than being allocated to any specific jurisdiction. As indicated previously in my testimony, it is unclear how the Company allocates its Vehicles and Work Equipment and how they are actually being charged to the North Dakota gas operations. My three-year average for the 2016-2018 ($528,105+$804,873+$847,835)/3 = $726,938, and adjustment of $120,897. My recommendation is shown on my Schedule DM-8.

Software Maintenance

Q. What is your next adjustment to the Company's Distribution Expenses?

A. My next adjustment is to the Company's Software Maintenance costs of $87,275 as shown on Statement K, page 21. The Company included a 2.22% inflation increase over the 2017 Projected year. The Company indicated that it is currently negotiating several software agreements. As I indicated previously in my testimony page 17, the only increases to the Company's Software Maintenance is the 2.22% inflation increase.

Q. What is your recommendation?

A. My recommendation removes the 2.22% inflation increase, an adjustment of $1,895. My recommendation is shown on my Schedule DM-8.

<u>Building Rental</u>

Q. What is your next adjustment to the Company's Distribution Expenses?

A. My next adjustment is to the Company's Building Rental expenses of $28,895 as shown on Company Statement K, p 22. As indicated in response to Data Request No. 2.37, none of the contracts specifically include an adjustment of 2.22%, the inflation factor the Company has used in to adjust its other expenses.

Q. What is your recommendation?

A. Given that there are no specific cost increases, I am recommending removal of the 2.22% inflation factor from the Company's Building Rental. This reduces the Company's costs from $28,895 to $28,267, an adjustment of $628. My recommendation is shown on my Schedule DM-8.

<u>All Other O&M Expenses</u>

Q. What is your final adjustment to the Company's Distribution Expenses?

A. My final adjustment is to the Company's O&M Expenses of ($1,664) as shown on Statement K, page 27. This adjustment is solely created by including a 2.22% inflation increase for both the 2016 and Projected 2017 periods.

Q. What is your recommendation?

A. I am recommending removing the 2.22% inflation increase for both the 2017 and 2018 periods for an adjustment of $71. Given that there are no specific cost increases or adjustments, the removal of the 2.22% inflation increase is appropriate, and my adjustment is shown on my Schedule DM-8.

E. Customer Accounting

Q. What has the Company proposed regarding its Customer Accounting Expenses?

A. The Company proposed Projected 2018 Customer Accounting Expenses of $2,942,096 is shown on Company Statement K, page 7 and 10-11 of 37. The Company provided a breakdown of its Customer Accounting Expenses as follows:

• Labor	$1,823,384
• Subcontract Labor	$ 60,759
• Materials	$ 136
• Vehicles & Work Equip.	$ 63,437
• Uncollectible Accounts	$ 338,099
• Postage	$ 353,028
• Software Maintenance	$ 80,131
• All Other O&M	$ 223,122
Total	$2,942,096

Q. What changes do you have regarding the Company's proposed Customer Accounting Expenses?

A. I have several adjustments to the Company's Customer Accounting Expenses. My first adjustment is to the Company's Labor Expense, specifically Premium Overtime, Incentive Compensation and Bonus and Commission.

Labor Expense

Q. What is your first adjustment regarding the Company's Labor Expense?

A. My first adjustment is to the Company's Premium Overtime. As I performed the analysis on the Company's Premium Overtime in its Other Gas Supply and Distribution Expenses, I am performing the same for the Company Customer Accounts Expense. I am averaging the Company's Premium Overtime for the periods 2016 and 2017 and comparing that result with the 2018 projected expense. The two-year average results in an expense of $24,266; including the 3.00% increase for 2018 results in $24,993. This results in an adjustment of $399 (Schedule DM-9). The ratios of Premium Overtime to total Labor Expenses are as shown in response to Data Request No. 2.24 (a) Attachment A.

Q. What is your second adjustment to Labor Expense?

A. My second adjustment is to the Company's Incentive Compensation of $138,450. I performed the same analysis as I did for the Premium Overtime; I averaged the Incentive Compensation for 2016 and 2017 and used the ratios for Customer Accounts to total Company as I did in the Other Gas Supply and Distribution section of my testimony, with the argument that this type of compensation varies from year to year depending on the level of goals and matrices achieved. The Company did not have any Incentive Compensation in 2015 (response to Data Request No. 2.24 (a) Attachment A). The average Incentive Compensation for 2016/2017 is $129,920 (Schedule DM-9), and by including the 3.00% wage increase the amount becomes $133,818. Applying the 40% cap reduces the amount to $53,527. The adjustment becomes $84,923 (Company expense of $138,450 - $53,527).

Q. What is your third adjustment to the Company's Labor Expense?

A. My third adjustment is to the Company's Bonus and Commission of $19,638. I did not average out the Bonus and Incentive Expense because these costs were reduced from prior years to remove and eliminate Retention Payments and MDU Resource Stock Compensation beginning in 2017. The Company has included $254,806 for both the 2017 and 2018 test periods. The portion applicable to Customer Accounts is $19,638 (See page 14 of my testimony). Capping the Bonus and Incentive Compensation at 40% reduces the amount to $7,855, an adjustment of $11,783 and is shown on my Schedule DM-9.

<u>Subcontract Labor</u>

Q. What is your next adjustment to the Company's Customer Accounts Expense?

A. My next adjustment is to the Company's Subcontract Labor Expense of $60,759 as shown on Company Statement K, page 15. Included in that amount is an inflation factor of 2.22% used to adjust 2016 and 2017 costs to the 2018 level.

Q. What is your recommendation?

A. My recommendation is to remove the Company's 2.22% inflation adjustment for both the 2017 and 2018 periods, as these types of costs do not reflect the true costs of doing business. As indicated in my previous testimony under Other Gas Supply and Distribution section, and in response to Data Request No. 2.31, the Company stated that there is a 2.5% adjustment based upon performance, however, the Company has not provided any results as to whether the Contractor has met any targeted goals nor provided the surveys that were supposed to be completed by October 31 of each contracted year. My removal of the 2.22%

inflation adjustment reduces the Company's costs by $1,320 to $59,439 and is shown on my Schedule DM-9.

Materials

Q. What is your next adjustment to the Company's Customer Accounts Expense?

A. My next adjustment is to the Company's Materials. The Company included $136 of Materials as shown on Statement K, page 16. Included in those costs is an adjustment of 2.22%. In response to Data Request No. 2.32, the Company indicated that it has not been notified of specific cost increases, but adjusted the Projected 2018 amount to reflect average expected inflation.

Q. What is your recommendation?

A. My recommendation is to remove the 2.22% increase or $3 from the Company's Materials Expense. The proposed 2.22% is not a known and measurable cost increase, but a blanket increase with no known specific increases to the Materials Expense. My recommendation is shown on my Schedule DM-9.

Vehicles and Work Equipment

Q. What is your next adjustment to the Company's Customer Accounts Expense?

A. My next adjustment is to the Company's Vehicles and Work Equipment. The Company has included a total expense level of $63,437 shown on Statement K page 17. As with other Company expenses, this expense has increase from $42,553 in 2015 to $63,437 in Projected year 2018, a 49% increase. The expense decreased in 2016 to $39,514. (response to Data Request No. 2.33). As stated previously, the increase in this account is due to the increase in the Depreciation Expense and the change from the current vs. proposed Depreciation Rates in this filing, and the way the Company accounts for its vehicles and work equipment which is directly attributable to the work performed rather than being allocated to electric and gas operations (Workpapers pages 87, 98 and 99). In response to Data Request No. 2.3 the Company stated that the costs aren't increasing as they are offset by salvage costs.

Q. What is your recommendation?

A. My recommendation is to average the Company's Vehicles and Work Equipment using the 2016-2018 years to take into account the change in the way the Company accounts for its vehicles and work equipment that is directly attributable to work performed rather than being allocated to any specific jurisdiction. It is unclear how the Company allocated these expenses to the North Dakota gas operations and what is actually being charged. In response to Data Request Nos. 2.18 and 2.19, the Company stated that General and Common vehicles are allocated without regards to where the assets will ultimately be used, and less specific allocation factors are used for budgeting utility and jurisdictional allocations. Therefore, I believe that a three-year average is reasonable to set costs for 2018. The three-year average reduces the Company's costs from \$63,437 to \$54,391 (\$39,514+60,222+63,437/3 = \$54,391), an adjustment of \$9,046 as shown on my Schedule DM-9.

<u>Uncollectible Accounts</u>

Q. What has the Company proposed regarding Uncollectible Accounts?

A. The Company proposed an Uncollectible Accounts of $338,099 as shown on Statement K, page 19. The Company utilized a three-year average ratio of write-offs applied to Sales Revenues. ($108,608,842 times .3113% = $338,099).

Q. What is your recommendation?

A. Since I did not adjust the Company's Present Sales and Transportation Revenue of $108,608,842, and accepted the Company's three-year average ratio of write-offs, my Uncollectible Accounts Expense is the same as the Company's, $338,099, as shown on my Schedule DM-9.

Postage Expense

Q. What has the Company proposed regarding Postage Expense?

A. The Company has proposed a Postage Expense of $353,028 as shown on Statement K page 20. The Company has not included any increase for its Distribution, Sales and A&G Postage Cost, but included an increase for its Customer Accounts. The Company stated that a 2.40% increase based upon the Consumer Price Index (CPI) is included in the 2018 Postage Expense. (Workpapers page K123).

Q. What is your recommendation?

A. I am recommending that Postage Expense remain at the 2017 level. The Company's CPI increase is actually 2.803% ($9,626/$343,400). As I indicated earlier in my testimony, CPI increases do not reflect the true cost of doing business. These are merely blanket increases for all categories of expenses and not specific increases attributable to one particular expense item. My adjustment reduces the Company's Postage expense by $9,626 and is shown on my Schedule DM-9.

Software Maintenance

Q. What is your next adjustment to the Company's Customer Accounts Expense?

A. My next adjustment is to the Company's Software Maintenance Expense of $80,131 as shown on Statement K page 21. The Company included a 2.22% inflation increase over 2017 projections. The Company stated in response to Data Request No. 2.36, that it is currently negotiating several software agreements, but as I previously stated in my testimony, the Company's only included a 2.22% increase to its Projected 2017 costs.

Q. What is your recommendation?

A. My recommendation is to keep the Company's Software and Maintenance Expense levels at 2017 levels. Until such time as the Company provides updates to its Software Maintenance contracts, it is reasonable to hold these expenses to 2017 levels. My adjustment reduces the Company's costs by $1,740. My recommended level of $78,391 is shown on Schedule DM-9.

All Other O&M

Q. What is your final adjustment to the Company's Customer Accounts Expense?

A. My final adjustment is to the Company's All Other O&M Expenses of $223,122 as shown on Statement K, page 27. The Company included a 2.22% inflation increase for both 2016 and 2017 to arrive at its Projected 2018 expense level.

Q. What is your recommendation?

A. My recommendation removes the Company's 2.22% inflation increases for both 2017 and 2018. As indicated earlier, these types of blanket increases are not known and measurable. My adjustment removes these inflation costs and keeps the All Other O&M Expense at 2016 levels ($213,536), reducing the amount by $9,586 as shown on my Schedule DM-9.

F. Customer Service & Information

Q. What has the Company propose regarding its Customer Service & Information Expenses?

A. The Company proposed Projected 2018 Customer Service & Information Expenses of $254,198 is shown on Company Statement K, page 7 and 10-11 of 37. The Company provided a breakdown of its Customer Service & Information Expenses as follows:

• Labor	$158,465
• Vehicles & Work Equip.	$ 3,668
• Advertising	$ 88,987
• All Other O&M	$ 3,078
Total	$254,198

Q. What changes do you have regarding the Company's proposed Customer Service & Information Expenses?

A. I have several changes to the Company's Customer Service & Information Expenses. My first adjustment is to the Company's Labor Expense – Incentive Compensation.

Labor Expense

Q. What is your adjustment to the Company's Labor Expense?

A. My adjustment to the Company's Labor Expense is to the Incentive Compensation portion. As indicated on page 11 of my testimony, the Company included $12,601 of Incentive Compensation in 2018. As performed previously, using the ratios of Customer Service & Information Incentive Compensation to total Incentive Compensation (response to Data Request No. 2.24 (a) Attachment A for 2016), I average these costs for 2016/2017 periods. I then added the 3.00% salary increase for 2018 to arrive at a level of $12,178 (Schedule DM-10). I then capped this amount at 40% in the same manner as I capped the previous Incentive Compensation adjustments. This reduces the Incentive Compensation amount by $7,730.

<u>Vehicles & Work Equipment</u>

Q. What is your next adjustment to the Company's Customer Service & Information Expense?

A. My next adjustment is to the Company's Vehicles & Work Equipment. The Company has included total costs of $3,668 as shown on Company Schedule K, page 17. As previously indicated, the Company stated that this increase was due to the increase in Depreciation Expense and the change from the current vs. proposed Depreciation Rates in this filing.

Q. What is your recommendation?

A. Given this change and the arguments I previously address in the Other Gas Supply, Distribution, and Customer Accounting section of my testimony, it is reasonable to average out these costs over the 2016-2018 period. My adjustment reduces the Company's Vehicles & Work Equipment by $523 ($2,285+$3,482+$3,668)/3 = $3,145), and is shown on my Schedule DM-10.

Advertising

Q. What has the Company proposed with respect to its Advertising Expense?

A. The Company proposed total Advertising Expense related to Customer Service & Information of $88,987 as shown on Company Statement K, page 23. These Advertising costs are related to Informational and Institutional related costs such as Call before you dig, Power Outage Notices, Power Line Safety, Kids, Safety, On-line Accounts, Telephone Directory and Seasonal Greetings (response to Data Request No. 2.38). The Company's media in its Advertising Expenses are Radio, Newspaper, Television and Other. The Company provided approximately 11 pages (Workpapers pages 126 through 136), which show many entries that are not related to gas service operations, safety related issues, customer service issues or reliability related issues.

Q. What is your recommendation?

A. I am recommending allowing 50% of the Company's Advertising Expenses in rates. As stated above, there are many entries that are not specific to the Company's gas service operations. Also, the balances in the Company's Workpapers do not coincide with the Promotional Advertising costs that have been eliminated. It is difficult to determine and match Advertising Costs directly attributable to Customer Service and Information making it reasonable to split the Advertising Costs 50/50. This reduces the Company's Advertising Expenses from $88,987 to $44,494. My recommendation is shown on my Schedule DM-10.

All Other O&M Expenses

Q. What is your final adjustment to the Company's Customer Service & Information Expense?

A. My final adjustment is to the Company's All Other O&M Expenses of $3,078, shown on Company Schedule K, page 27. The Company has included a 2.22% inflation increase to set its 2017 and 2018 expense levels.

Q. What is your recommendation?

A. My recommendation is to remove the 2.22% inflation increases for both periods. My argument is the same as indicated previously in my testimony. This reduces the Company's increase from $3,078 to $2,946, or $132, and is shown on my Schedule DM-10.

G. Sales

Q. What has the Company proposed regarding its Sales Expenses?

A. The Company proposed Projected 2018 Sales Expenses of $94,299 as shown on Company Statement K, page 7 and 10-11 of 37. The Company provided a breakdown of its Sales Expenses as follows:

• Labor	$78,878
• Subcontract Labor	$ 6,258
• Vehicles & Work Equip.	$ 4,152
• Postage	$ 353
• All Other O&M	$ 4,658
Total	$94,299

Q. What changes do you have regarding the Company's proposed Sales Expenses?

A. I have several adjustments to the Company's Sales Expense. My first adjustment is to the Company's Labor Expense of $78,878 which encompasses Premium

Overtime, Incentive Compensation and Bonus and Commission, shown on Company Workpapers page K92.

<u>Labor Expense</u>

Q. Please explain your first adjustment to the Company's Labor Expense.

A. My first adjustment is to the Company's Premium Overtime of $131. Using the ratios of Premium Overtime – Sales to total Company Premium Overtime, (response to Data Request No. 2.24 (a) Attachment A), I averaged out 2016/2017 levels, and included the 3.00% wage increase to arrive at a cost level of $129. I then adjusted this amount to the Company's proposed amount of $131, a reduction of $2, shown on my Schedule DM-11.

Q. What is your second adjustment to Labor Expense?

A. My second adjustment to Labor Expense is to the Company's Incentive Compensation of $5,892. Performing the same analysis as I discussed previously in my testimony, I averaged out the Incentive Compensation for 2016/2017 and included the 3.00% wage increase to arrive at a level of $5,700 (Schedule DM-11). I then capped this amount to 40%, which reduces the amount by $3,612.

Q. What is your third adjustment to Labor Expense?

A. My third adjustment is to the Company's Bonus and Commission Expenses of $642. As I testified to previously, I did not average these expenses as these costs have been reduced to eliminate the Retention Payments and MDU Resource Stock Compensation beginning in 2017. The Company included $642 of Bonus and Commission (Schedule DM-11). I capped this amount to 40% and reduced the Company's amount by $385.

Subcontract Labor

Q. What is your next adjustment to the Company's Sales Expense?

A. My next adjustment is to the Company's Subcontract Labor of $6,258 shown on Company Schedule K, page 15. The Company has included a 2.22% increase over 2017 costs. As indicated previously, I am removing the 2.22% inflation increase, which reduces the Company's Subcontract Labor costs from $6,258 to $6,122, a reduction of $136. My adjustment is shown on my Schedule DM-11.

Vehicles and Work Equipment

Q. What is your next adjustment to the Company's Sales Expense?

A. My next adjustment is to the Company's Vehicles and Work Equipment. The Company proposed a total cost of $4,152 as shown on Statement K, page 17. As I previously stated in my testimony, I am averaging 2016-2018 costs to arrive at a balance of $3,560. ($2,586+$3,942+$4,152/3). This reduces the Company's expense by $592 and is shown on my Schedule DM-11.

All Other O&M

Q. What is your final adjustment to the Company's Sales Expense?

A. My final adjustment to the Company's Sales Expense is the All Other O&M Expenses as shown on Company Statement K, page 27, in the amount of $4,658. The Company included a 2.22% inflation increase to the 2017 and 2018 expense levels.

Q. What is your recommendation?

A. My recommendation is to remove the 2.22% inflation increase for both the 2017 and the 2018 periods. My adjustment removes these inflation increases to arrive at a cost of $4,458, the 2016 level, an adjustment of $200. My recommendation is shown on my Schedule DM-11.

H. Administrative & General (A&G)

Q. What has the Company proposed regarding its Administrative & General Expenses?

A. The Company proposed Projected 2018 A&G Expenses of $8,346,928 as shown on Company Statement K, page 7 and 10-11 of 37. The Company provided a breakdown of its Administrative & General Expenses as follows:

• Labor	$2,425,190
• Benefits	$2,627,191
• Subcontract Labor	$ 351,230
• Materials	$ 28,119
• Vehicles & Work Equip.	$ 27,650
• Company Consumption	$ 53,190
• Postage	$ 52,608
• Software Maintenance	$ 324,925
• Building Rental	$ 407,118
• Advertising	$ 45,114
• Industry Dues	$ 71,088
• Insurance	$ 638,352
• Regulatory Commission Exp.	$ 129,124
• All Other O&M	$1,166,029
Total	$8,346,928

Q. What changes do you have regarding the Company's proposed Administrative and General Expenses?

A. I have several adjustments to the Company's A&G expenses. My first adjustment is to the Company's Labor Expense which encompasses Premium Overtime, Incentive Compensation and Bonus and Commission.

<u>Labor Expense</u>

Q. Please explain your first adjustment to Labor Expense?

A. My first adjustment to Labor Expense is to the Company's Premium Overtime of $9,762. Using the same ratios of Premium Overtime – Sales to total Company Premium Overtime (response to 2.24 (a) Attachment A), I averaged 2016/2017 expense levels and included the 3.00% wage increase to arrive at an expense level of $9,599. I then adjusted the amount to the Company proposed amount of $9,762, a reduction of $163, and shown on my Schedule DM-12.

Q. Please explain your second adjustment to Labor Expense?

A. My second adjustment is to the Company's Incentive Compensation in the amount of $159,071. Performing the same analysis as I discussed previously in my testimony, I averaged the 2016/2017 Incentive Compensation Expenses and included the 3.00% salary increase to arrive at a level of $153,757 (Schedule DM-12). I then capped this amount to 40%, reducing this amount by $97,568 to a level of $61,503.

Q. What is your third adjustment to Labor Expense?

A. My third adjustment is to the Company's Bonus and Commission Expense of $175,816. As I previously testified, I did not average these expenses as these costs have been reduced to eliminate the Retention Payments and MDU Resource Stock Compensation beginning in 2017. I capped these expenses to 40% reducing the Company's expenses by $105,490 to a level of $70,326. My adjustment is shown on my Schedule DM-12.

Benefits

Q. What did the Company propose with respect to its Employee Benefits?

A. The Company proposed total Employee Benefits of $2,627,191 as shown on Statement K, page 14. These costs include Medical/Dental, Pension and Post-Retirement, 401K, Workers Compensation and Other Benefits. Included in the $2,627,191 is an estimated increase of 7.00% based upon effective 2017 premiums and projected 2018 premiums.

Q. What adjustments do you have with regard to the Company's Employee Benefits?

A. In response to Data Request No. 2.30, the Company stated that via a phone conversation, the Company's benefits consultant anticipated a premium increase for 2018 to be in the range of 6.50% and 7.50%; the Company used the mid-point of 7.00%. This proposed 7.00% increase is for the Company's Medical/Dental Expense. There is nothing in writing to support the Company's proposed 7.00% increase in its Medical/Dental Expense, an $88,737 adjustment. ($1,356,405-$1,267,668). I am recommending removing the Company's 7.00% adjustment ($88,737) until such time as the Company can provide sufficient documentation to support this rate increase adjustment. My adjustment is shown on my Schedule DM-12.

Subcontract Labor

Q. What is your next adjustment to the Company's A&G Expenses?

A. My next adjustment is to the Company's Subcontract Labor in the amount of $351,230, shown on Company Statement K, page 15. Included in that amount is an inflation factor of 2.22%. As I previously discussed, I am removing the 2.22% inflation increase from the Company's Subcontract Labor expense, which amounts to $7,628 ($351,230-$343,602). My adjustment is shown on my Schedule DM-12.

Materials

Q. What is your next adjustment to the Company's A&G Expenses?

A. My next adjustment is to the Company's Materials Expense in the amount of $28,119, shown on Company Statement K, page 16. Included in this cost is a2.22% inflation increase. In response to Data Request No. 2.32, the Company stated that it has not been notified of specific cost increases but adjusted the Projected 2018 expense to reflect inflation.

Q. What is your recommendation?

A. I am recommending removing the 2.22% inflation increase or $611 from the Company expense, as the proposed 2.22% is not a known and measurable cost increase, but a blanket increase with no known specific increases to the Materials Expense. My recommendation is shown on my Schedule DM-12.

Vehicles and Work Equipment

Q. What has the Company propose with respect to its Vehicle and Work Equipment within its A&G Expenses?

A. The Company has included a total expense related to its Vehicles and Work Equipment of $27,650, shown on Company Statement K, page 17. As I explained earlier, the Company stated that this increase is due to the increase in the

Depreciation Expense and the change from the current vs. proposed Depreciation Rates in this filing. As I adjusted the Vehicles and Work Equipment Expenses previously for the Company's other expense accounts, I am adjusting the same here, by averaging the 2016-2018 costs. My three-year average ($17,223+$26,249+$27,650/3) = $23,707, an adjustment of $3,943, and is shown on my Schedule DM-12.

Software Maintenance

Q. What has the Company proposed with respect to its Software Maintenance in its A&G Expenses?

A. The Company proposed a Software Maintenance level of $324,925, shown on Statement K, page 21. Included in that amount is a 2.22% inflation increase over its 2017 Projected level of $317,868.

Q. What is your recommendation?

A. As I adjusted the Company's Software Maintenance expenses previously for the Company's other expense accounts, I am doing the same here, by removing the 2.22% inflation increase to arrive at a balance of $317,868, an adjustment of $7,057. As stated previously, the Company has not provided any specific cost adjustments, but the 2.22% inflation increase. My adjustment is shown on my Schedule DM-12.

Building Rental

Q. What has the Company proposed regarding its Building Rental expense within its A&G Expenses?

A. The Company proposed a Building Rental Expense of $407,118, shown on Statement K, page 22. Included in this amount is an inflation factor adjustment of 2.22%.

Q. What are your adjustments?

A. I have two adjustments to the Company's Building Rental Expense. My first adjustment is to the Company's Parking Lot Rental from Trinity Evangelical. In response to Data Request No. 2.37, the increase to this rental for 2018 is 37.50%. The remaining rental increases shown on this response has all other 2018 increases under 2.00%, and no other increases for the remaining vendors. Attachment A to the response to Data Request No. 2.37 shows the three lots at a rental of (page 11 of the PDF document):

		Proposed
Lot C - $1,040 x 12 = $12,480		$1,040 x 37.50%=$17,160
Lot DD - $560 x 12 = $$6,720		$6,720 x 37.50%=$9,240
Lot E - $1,120 x 12 = $13,440		$13,440 x 37.50=$18,480
Total	$32,640[9]	$44,880

According to the response to Data Request No. 2.37, the Increase for the Trinity Evangelical Parking Lots are not stated in the Contract. Given that the remaining rents include either a zero or less than 2% increase, I am recommending that the Parking Lots rentals be limited to a 2% increase. ($32,640 x 2% = $33,293. This reduces the Company's Building Rental by ($44,880-$33,293 = $11,587).

[9] For the period August 1, 2015 through July 31, 2016.

Q. What is your second adjustment?

A. My second adjustment is to the adjustment made by the Company for the Treasury Services – Montana Dakota Only. The Company's 2016 level for this expense was $206,621 (Workpapers pg. K125), and increased to $242,601, an adjustment of $33,980. The Company stated that the increase is due to the way corporate costs are allocated by MDU/FutureSource (response to Data Request No. 6.5). There is no other reason for the increase but for the updated allocation. The Company has also included a 2.22% inflation increase for all rentals, whether costs are expected to remain the same or not.

Q. What is your recommendation?

A. I am recommending that the 2.22% inflation increase be eliminated, reducing the Parking Lot rental by $11,587, and removing the proposed increase to the Treasury Service allocation of $33,980. This reduces the Company's Building Rental from $407,118 to $352,709, or a reduction of $54,409. My recommendation is shown on my Schedule DM-12.

<u>Advertising</u>

Q. What has the Company proposed with respect to its Advertising Expense?

A. The Company proposed total Advertising Expense related to its Institutional Expense in its A&G of $45,114, as shown on Statement K, page 23. As stated previously, these Advertising Expenses relate to costs listed in the response to Data Request No. 2.38. The Company provided approximately 11 pages of Workpapers which show many entries that are not typically related to gas service or operations, safety related issues, customer service issues or reliability related issues.

Q. What is your recommendation?

A. As I recommended for the Customer Service & Information Expenses, I am recommending the same here, allowing 50% of the Advertising Expense in rates. This reduces the Company's expense from $45,114 to $22,557, shown on my schedule DM-12.

<u>Industry Dues</u>

Q. What has the Company proposed with respect to its Industry Dues?

A. The Company proposed total Industry Dues of $71,088 as shown on Statement K, page 24.

Q. What are your adjustments?

A. In reviewing Company Workpapers, pages K137-145, there are many entries that do not relate to gas service operations in North Dakota. Some of the entries that I believe do not reflect or provide a benefit to natural gas ratepayers:

- Bismarck – Mandan Convention
- Cavalier Retail Committee
- Consortium for Energy Efficiency
- Energy Solutions Center
- Forward Devil's Lake Corp.
- Cavalier Chamber of Commerce
- Max Civic Club
- Park River Commercial Club
- Midwest Region Task Force
- Utility Solid Waste Activities Group
- North Dakota EPA

These Industry Dues amount to $6,844. My adjustment reduces the Company's Industry Dues to $64,244, and is shown on my Schedule DM-12.

Insurance Expense

Q. What has the Company proposed regarding its Insurance Expense?

A. The Company has proposed a level of Insurance Expense of $638,352 as shown on Company Statement K, page 25. The Company has included 5% increases over 2017 costs to reflect its 2018 Projected level.

Q. What is your recommendation?

A. In reviewing the response to Data Request No. 2.39, the Company has not received any formal notices regarding premium insurance increases to be in place in 2018. The Company projected a blanket 5% increase for all of its Insurance Expense items as shown on Statement K, page 25. Given that there has been no formal or written notification from its Insurance providers, I am recommending that the 5% increase be removed from the Company's Insurance Expense projection. This reduces the Company's Insurance Expense from $638,352 to $607,954, a difference of $30,398. My recommendation is shown on my Schedule DM-12.

All Other O&M Expenses

Q. What has the Company proposed with respect to its All Other O&M Expenses within its A&G Expense category?

A. The Company has proposed total All Other O&M Expenses of $1,166,029 as shown on Company Statement K, page 27. Included in this amount are 2.22% inflation increases for both 2017 and 2018.

Q. What is your recommendation?

A. My recommendation is to remove the 2.22% inflation increases for both 2017 and 2018. My arguments for removal of the inflation adjustment has been stated previously in my testimony. This reduces the Company's expense from $1,166,029 to $1,115,931 or $50,098. My adjustment is shown on my Schedule DM-12.

<u>I. Aircraft Expenses</u>

Q. Did the Company propose or address any adjustments to Aircraft Expenses?

A. No. However, in response to Data Request No. 6.1, the Company provided expenses related to aircraft allocated to the North Dakota gas operations. In that response, aircraft is owned by FutureSource and a portion is allocated to the North Dakota gas operations (Rate Base and Operating Expenses).

Q. How much is allocated to MDU-North Dakota Gas?

Q. In response to Data Request No. 6.02, approximately $297,894 of expenses through August 2017 have been allocated to the North Dakota gas operations. These costs are associated with Corporate Campus, Aircraft and Hanger ROI & Cost of Service on Shared Service Assets, Campus Building, Fixed Costs, and Billed Flights. The North Dakota gas operations has been allocated approximately 15.67% of the total MDU/GPNG total costs of $1,900,184.

Q. What recommendations do you have with regard to Aircraft Expenses?

A. In the same manner as I recommended removal of Rate Base assets related to Aircraft, I am recommending removal of the associated expenses. I annualized the Company's 8 months' costs of $297,864 for a full 12-month period to arrive at a yearly cost of ($297,864/8*12 = $446,796). These costs have been booked to the Company's A&G Expenses. In response to Data Request No. 6.14, a breakdown of the Company's A&G Expenses does not show or reflects costs related to Aircraft Expenses. I created a separate cost line to show my adjustment to the Company's Aircraft Expense (Schedule DM-5).

J. MDUR/FutureSource Expenses

Q. What are costs associated with MDUR/FutureSource?

A. As indicated in response to Data Request No. 6.2, these costs are costs associated with services performed by MDUR/FutureSource related to Shared Services, Payroll Shared Services, Procurement Shared Services, Enterprise Technology Services and General and Administrative Services. I've reviewed the response and note expenses related to:

- Bonus and Incentives - $226,960
- Director Meals and Entertainment - $797
- Director's Deferred Compensation – ($12,700)
- Corporate Airplane - $966
- Meals and Entertainment - $2,304

Q. Do you believe all these costs should be recoverable in rates?

A. No. I am limiting the Bonus and Incentive expenses by capping them at 40%, in the same manner as I did for the Company's Bonus and Incentive Compensation. For the remaining expenses, I am removing them because I do not believe these costs should be assigned to the North Dakota natural gas service customers.

Q. How did you adjust these expenses?

A. I first annualized these costs since the response to Data Request No. 6.2 are through August 2017 and do not reflect a full year of operations. With respect to the Bonus and Incentive Compensation, I took the average of the 2016 and 2017 costs as I did for the North Dakota's Incentive Compensation adjustments and limited the average to 40%.

2017 annualized Bonus and Incentive	$340,440
2016 Bonus and Incentive	$268,858
Average	$304,649
Capped at 40%	$121,860
Disallowance	$182,790

For the remaining expenses I annualized and removed the following 2017 Expenses:

Director's Meals and Entertainment	$1,196
Director Deferred Compensation	$(19,050)
Corporate Airplane	$1,449
Meals and Entertainment	$3,456
Total	$169,840

My recommendation is shown on my Schedule DM-5.

K. Depreciation & Amortization

Q. What has the Company proposed regarding its Depreciation & Amortization Expense?

A. The Company proposed Projected 2018 Depreciation & Amortization Expense of $9,206,297 is shown on Company Statement K, page 30 of 37. The Company computed its Depreciation & Amortization Expenses based on 2018 average projected plant in service balance of $268,555,021 (Statement L, page 2). The Company provided a breakdown of its Depreciation & Amortization Expense as follows:

• Distribution	$7,486,172
• General	$ 164,792
• General Intangible	$ 281,883
• Common	$ 353,878
• Common Intangible	$ 890,466
• Amort. Of Preferred Stock Cost	$ 4,133
• Amort. Of Gain on Building	$ (17,564)
• Amort. Of Loss on Employee Housing	$ 39,717
• Acquisition Adjustment	$ 2,820
Total	$9,206,297

Q. Did the Company conduct a Depreciation Study?

Yes. The Company stated that it had a Depreciation Study conducted by AUS Consultants and the Company is proposing to use the Depreciation rates that were developed in the Common Gas Depreciation studies with the following exceptions: The Common Depreciation rates proposed in this filing are consistent with the Depreciation rates approved in the most recent electric rate case (PU-16-666). For the Gas Assets, the Company is proposing to utilize the rates presented in its Depreciation Study with the exception of FERC Accounts 376, 380 and 381 (Distribution Assets). While the Depreciation Study supports the Cost of Removal (COR) component of the Depreciation rates to be 50%, 200% and 20% (negative values), the current COR are 40%, 140% and 0% (negative value). In order to mitigate the Depreciation rate increases, the Company is proposing to use the COR rates of 30%, 175% and 5% (negative values) (Company witness Jacobson testimony page 14).

Q. What are the Depreciation Rates that the Company is proposing in this Filing?

A. The Company is proposing to use the following composite Depreciation Rates:

- Distribution Plant 3.39%
- General Plant 5.24%
- Common Plant 3.16%

Q. What changes do you have regarding the Company's proposed Depreciation & Amortization Expense?

A. Since I made adjustments to the Company's Plant in Service additions (Schedule DM-13), I am making corresponding adjustments to the Company's Depreciation Expense. My adjustments are to the Company's Distribution Additions, General and Common Additions and the adjustments in removing the Amortization of Loss on Employee Housing. My adjustments total $326,130 and are shown on my Schedule DM-13.

L. Taxes Other Than Income

Q. What has the Company proposed regarding its Taxes Other Than Income?

A. The Company proposed total Taxes Other Than Income of $2,039,599 as shown on Company Statement K, page 33 of 37. The Company provided a breakdown of its Taxes Other Than Income Taxes as follows:

• Ad Valorem Taxes	$1,179,158
• Payroll Taxes	$ 824,045
• Franchise Taxes	$ 6,204
• Delaware Franchise	$ 29,092
• Other	$ 1,100
Total	$2,039,599

The Company calculated its Ad Valorem Taxes using the Projected 2017 and 2018 plant in service balances and applying a projected tax rate based on the ratio of 2016 Ad Valorem Taxes to average plant balances, excluding the acquisition adjustment, as of December 31, 2016, by function. (Company witness Jacobson testimony page 15).

The Company calculated its Payroll Taxes based upon the ratio of payroll taxes to labor expense for 2016 and applying that rate to the projected 2017 and 2018 labor expense. All other Taxes Other Than Income were projected to remain at 2016 levels.

Q. What are your changes with respect to the Company's Taxes Other than Income?

A. I have two changes to the Company's Taxes Other than Income. My first adjustment is to the Company's Ad Valorem Tax. Since I made adjustments to the Company's Plant Balance, I am making adjustments to the Company's Ad Valorem Taxes related to its Distribution, General Plant and Common Plant. I accepted the Company's Tax Rates. My adjustments total $17,657.

Q. What is your next adjustment?

A. My next adjustment is to the Company's Payroll Taxes. Since I made adjustments to the Company's Premium Overtime, Bonus and Incentive Compensation and, Commissions, I am making adjustments to the payroll taxes associated with these costs. I accepted the Company's 7.30% tax rate. My adjustments calculate to $48,336 and are shown on my Schedule DM-14.

M. Income Taxes

Q. What has the Company proposed regarding its calculation of its Income Taxes?

A. As shown on Company Statement J, page 3 of 3, the Company computed its Income Taxes at present rate revenue (before additional proposed revenue requirements) of $1,876,170, and $4,092,546 that reflects the Company's additional revenue requirement of $5,863,197. The Company has calculated interest expense based upon the projected Rate Base and the projected debt ratio and weighted cost of debt ($135,450,558 x 2.442%) to compute a level of interest expense of $3,307,703. (Company Statement K page 37 of 37).

Q. Do you agree with the methodology the Company used to compute its Federal and State Income Taxes?

A. Yes, I agree with the Company's methodology used to compute its Federal and State Income Taxes, as well as, the use of the Federal Tax Rate of 35.00% and the State Income Tax Rate of 4.310% for a Combined Federal and State Tax Rate of 37.8015%. What I am adjusting is my recommended Gross Operating Income based upon my changes to the Company's Operating Revenues and Operating Expenses.

Q. What is your recommended Federal and State Income Tax Expense?

A. My recommended Federal and State Income Tax Expense is $3,509,222, which is $583,325 lower than the Company's level of $4,092,547, and is shown on my Schedule DM-15.

IV. Rate Base Issues

<u>A. Gas Plant In Service (GPIS)</u>

Q. What has the Company proposed regarding its Gas Plant In Service (GSIP) Balance for the Projected 2018 Test Year Period?

A. The Company has computed its GPIS by using an average 2017 and 2018 projected plant in service balance for a total average 2017-2018 balance of $268,555,021 as shown on Company Statement L, page 2 of 22.

Q. How did the Company develop its average Projected 2017-2018 GPIS Balance of $268,555,021?

A. The Company began with its year-end 2016 GPIS Balance of $250,095,488 and to that balance added capital budget items for 2017 to the 2016 Gas Plant In Service Balances, adjusted for Retirements (three-year average). This produced an average balance of $256,028,189. The Company repeated this development for 2018 which produced an average balance of $268,555,021. (Company witness Jacobson testimony page 16). Included in the average balance of $268,555,021 are 2018 costs associated with the Company's proposed System Safety and Integrity Program (SSIP) of $5,553,154 ($2,886,799 for Main Replacements and $2,666,355 for Service Line Replacements).

Q. Did the Company provide a Summary of Plant Additions expected to be placed in service for 2017 and 2018?

A. Yes. As shown on Company Statement L, page 4 through 9 of 22, the Company has provided the following plant additions breakdown:

	Projected 2017	Projected 2018
Distribution Plant	$10,086,199	$12,499,737
General Plant	$ 3,062,416	$ 3,080,098
General Intangible Plant	$ 461,208	$ 0
Common Plant	$ 568,848	$ 729,274
Common Intangible Plant	$1,027,427	$ 441,760
Total	$15,206,098	$16,750,869

Q. Did the Company update its Plant Additions balance for 2017?

A. Yes. In response to Data Request No. 2-16, the Company provided an update of its Plant Additions through September 2017.

Q. What changes do you have regarding the Company's proposed Projected Average 2017-2018 Gas Plant In Service Balance of $268,555,021?

A. I have several adjustments related to the Company's GPIS Balance:

1. Remove the Company's proposed System Safety and Integrity Main Replacements of $2,886,799. (Statement L page 8 of 22).
2. Remove the Company's proposed System Safety and Integrity Service Line Replacements of $2,666,355. (Statement L page 8 of 22).

3. Remove the Purchase Land/Office – Hettinger Addition of $73,287 (Statement L page 8 of 22).
4. Limit the Company's 2017 General Vehicle Additions to $557,444, an adjustment of $246,683. (Response to Data Request No. 2-18, page 1 of 6).
5. Limit the Company's 2017 Work Equipment Additions to $1,907,557, an adjustment of $152,932. (Response to Data Request No. 2-19, page 2 of 4).
6. Limit the Company's 2018 Work Equipment Additions to $1,258,534, an adjustment of ($821,407) (Response to Data Request No. 2-19, page 4 of 4).
7. Remove the Company's allocated costs related to Aircraft Equipment of $786,586 (Response to 6-1 – Statement A page 3 of 5).
8. Limit the Company's 2018 Common Vehicles additions to $191,201, an adjustment of ($112,073) (Response to Data Request No. 2-18, page 5 of 6).

Adjustments 1 and 2 – System Safety Main /Line Replacements

Q. What prompted the Company to include and propose the replacement of its Vintage Steel Pipe, Low-Pressure System, Aldyl A pipe systems and Service Line Replacements?

A. The Company has proposed to include $2,886,799 of Main Replacements related to its proposal to accelerate the replacement of early vintage steel pipe, plastic pipe, and low-pressure system and Aldyl A pipe systems; and related $2,666,355 Service Line Replacements. The Company has stated that the replacements of these Main Replacements are needed due to higher risks as identified by the Company's Distribution Integrity Management Plan (DIMP). (Kivisto Testimony page 8). The Company has indicated that these replacement projects would require significant spending and would require the Company to file more frequent rate cases. (See Company response to Data Request No. 2.53). Dr. K. Pavlovic provides further information regarding the removal of these additions in his testimony.

Q. What is your recommendation?

A. As per the recommendation of Dr. Karl Pavlovic, I am recommending removal of both the average cost related to Main Replacements of $2,886,799 and the average cost related to Service Line Replacements of $2,666,355 or ($5,553,154/2 = $2,776,577). The NDPSC has not directed the Company to institute an accelerated plan to replace higher risk infrastructure, nor has the Company provided a full and complete plan to best manage the effective implementation of the system replacements. In sum, the Company indicated that it is continuing to evaluate the need for replacement and has no formal program in place. My recommendation is shown on my Schedule DM-17.

Adjustment 3 – Purchase Land/Office -Hettinger

Q. What did the Company propose with respect to its purchase of land/building in Hettinger?

A. The Company proposed to include $73,287 as a 2018 Plant Addition. This property is currently being leased from BNSF Railroad and includes an office building, as well as tanks, piping, regulators, valves, equipment and fencing related to the propane system in Hettinger, ND. The propane system is owned and operated by the Company.

Q. What is your recommendation?

A. According to the response to Data Request No. 2-20, BNSF told the Company that they were not interested in selling any of their properties, as they were busy with the oil boom and internal employee turnover. Given this information, it appears that the sale will not be consummated in 2018, even though the Company stated it plans to readdress this purchase with BNSF. Therefore, I am recommending removal of the average cost of $73,287 or ($73,287/2 =$36,644). My recommendation is shown on my Schedule DM-17.

Adjustment 4- 2017 General Vehicle Additions

Q. What did the Company propose with respect to its 2017 Plant Additions related to its General Vehicle Additions – General Office?

A. The Company proposed to include $804,127 related to 2017 general vehicle additions. These additions relate to various vehicles used by the Company's gas utility only. The Company stated that vehicle additions are recorded using allocation factors specific to the location or town where the vehicle is in service. The allocation methodology is discussed in response to Data Request No. 2-18.

Q. What is your recommendation?

A. The Company provided a budgeted allocation level related to general vehicle additions ($804,127) and actual allocation ($557,444), a difference of $246,683. Given that $557,444 is the actual allocation, I am limiting the Company's additions to this amount. I believe this level is more accurate. I averaged out the difference of $246,683/2 = $123,342 as per the Company's average balance methodology. My recommendation is shown on my Schedule DM-17.

Adjustment 5 – 2017 Work Equipment Additions

Q. What did the Company propose with respect to its 2017 Plant Additions related to Work Equipment Additions- General Office?

A. The Company proposed to include $2,060,489 related to 2017 work equipment additions. These additions relate to power operating equipment used in construction or repair work. The Company also stated that the work equipment additions are recorded using allocation factors specific to the location or town where the equipment is placed in service. The actual allocation methodology is discussed in the Company's response to Data Request No. 2-19.

Q. What is your recommendation?

A. In response to Data Request No. 2-19, the Company provided a budgeted allocation level related to work equipment additions ($2,060,489) and actual allocation ($1,907,557), a difference of $152,932. Given that $1,907,557 is the actual allocation, I am limiting the Company's 2017 additions to this amount. I believe this level is more accurate. I averaged out the difference of $152,932/2 = $76,466 as per the Company's average balance methodology. My recommendation is shown on my Schedule DM-17.

Adjustment 6 – 2018 Work Equipment Additions

Q. What did the Company propose with respect to its 2018 Plant Additions related to its Work Equipment – General Office?

A. The Company proposed to include $2,079,941 related to work equipment additions. These additions relate to power operating equipment used in the construction or repair work the Company performs. The Company indicated that the work equipment is budgeted without regard to where the assets will ultimately be placed, and less specific allocation factors are used for budgeting utility and jurisdictional allocations. Actual allocation factors are recorded using allocation factors specific to the location or town where the equipment is in service. (response to Data Request No. 2-19).

Q. What is your recommendation?

A. In response to Data Request No. 2-19, the Company provided a budgeted allocation level related to work equipment – General Office ($2,079,941) and actual allocation related to work equipment -General Office ($1,258,534), a difference of $821,407. Given that $1,258,534 is the actual allocation, I believe this level is more accurate. I averaged out the difference of $821,407/2 = $410,704 as per the Company's average balance methodology. My recommendation is shown on my Schedule DM-17.

Q. Have you made the same adjustment to the Company's 2017 Plant Additions related to its Work Equipment?

A. No, I have not. The Company has provided an update to its 2017 Plant Additions in response to Data Request No. 2-16 through September 2017. Once the Company has fully updated its 2017 Plant Additions, I may have adjustments to its 2017 period.

Adjustment 7 – Aircraft Equipment

Q. Does the Company have costs related to Aircraft Equipment?

A. Yes. As shown on Company Schedule A, page 3 of 5, the Company has an average balance as of 2016 in the amount of $786,486.

Q. Did the Company indicate or break down how much Aircraft Equipment was included in 2017 and 2018?

A. No.

Q. What reasons did the Company provide as to why Aircraft Equipment is included in the Company's revenue requirement?

A. In response to Data Request No. 6-1, the Company stated that aircraft is used when multiple employees are traveling to one location thus reducing the number of commercial fares. The use of the plane often reduces the requirement to stay overnight, which reduces lodging costs, meals and less time traveling. Many of the Montana-Dakota employees' destinations have few commercial flight options which makes it difficult to obtain travel arrangements that do not require overnight travel and often results in two days of travel.

Q. What is your recommendation?

A. I am recommending removal of the plant related to Aircraft Equipment. I believe that Company ratepayers should not be charged for expenditures related to aircraft equipment and related costs. The costs and usage of private and chartered airplane usage are usually more expensive in nature. Although the Company has stated that there are few commercial flight options, employees still have the option to drive. It seems unlikely that chartered airplane usage is used for travel with the State of North Dakota. If the Company does utilize chartered airplane travel within North Dakota, the Company should provide specifics on when, where and why the in-state flights occurred. Even by using commercial airplane flights and including lodging and meals, the costs will be less than the use of the Company's aircraft. My recommendation is shown on my Schedule DM-17.

Adjustment 8 – 2018 Common Vehicle Additions

Q. What did the Company propose with respect to its Common Vehicles for 2018?

A. The Company propose to include $303,274 related to Vehicles – General Office. These costs relate to vehicles used by the Company for gas operations. The Company allocated the costs associated with common vehicles to the North Dakota gas operations (response to Data Request No. 2-18). In the same manner as Work Equipment – General Office, the Company stated that the common vehicles are budgeted without regard to where the assets will ultimately be used so less specific allocation factors are to allocate the costs.

Q. What is your recommendation?

A. I allocated the Company's Common Vehicles using the same method used to allocate the Company's Work Equipment – General Office. In response to Data Request No. 2-18, the Company provided a budgeted allocation level related to Common Vehicles ($303,274) and actual allocations ($191,201), a difference of $112,073. Given that $191,201 is the actual allocation, I believe this level is more accurate. I averaged the difference of $112,073/2 = $56,037 as per the Company's average balance methodology. My recommendation is shown on my Schedule DM-17.

Q. What is your recommended average Gas Plant In Service Balance with the adjustments that you have made?

A. My recommended average Gas Plant In Service Balance is $264,288,766, which is $4,266,255 lower than the Company's average Gas Plant In Service Balance of $268,555,021. My recommendation is shown on my Schedule DM-17 and carried over to Schedule DM-16 – Average Rate Base.

B. Accumulated Depreciation

Q. What has the Company proposed regarding its Accumulated Depreciation?

A. The Company has proposed and computed an Accumulated Depreciation Balance of $99,474,551 as shown on Company Statement L, page 1 and 10 of 22. The Company's Accumulated Depreciation balance was calculated using the reserve balance at December 31, 2016, adding the calculated Depreciation Expense and deducting retirements based upon a three-year average of retirements. The average 2017 balances were then calculated, and the process was repeated for 2018. (Company witness Jacobson testimony page 17).

Q. Did the Company provide a breakdown of its Projected Average Accumulated Depreciation?

A. Yes. On Company Statement L, page 10 of 22, the Company provided the following breakdown:

Distribution	$85,713,338
General	$ 1,599,343
General Intangible	$ 1,441,295
Common	$ 4,164,702
Common Intangible	$ 6,485,154
Acquisition Adjustment	$ 70,719
Total	$99,474,551

Q. Do you have any adjustments to the Company's proposed Projected Average Accumulated Depreciation Balance?

A. Yes. My adjustments to the Gas Plant In Service balance of $264,288,766 are related to my adjustments for Distribution, General Vehicles and Work Equipment, Common Structures and Improvements and Common Vehicles. I used the same average methodology to compute my recommended adjustments for each of the accounts above. My recommendation reduces the Company's Accumulated Depreciation from $99,474,549 to $99,331,343 a difference of $143,206 and is shown on my Schedule DM-18 and carried over to Schedule DM-16 – Average Rate Base.

C. Working Capital Components

Q. What has the Company computed regarding its Working Capital Components?

A. The Company proposed a total Working Capital allowance of $3,437,393 as shown on Company Statement L, page 1 of 22, which is broken down by the following components:

Materials and Supplies	$2,070,029
Fuel Stock	$ 95,174
Prepayments	$ 249,029
Unamortized Loss on Debt	$ 470,255
Unamortized Redemption Cost Of Preferred Stock	$ 59,934
Gain on Sale of Building	$(281,515)
Loss on Sale of Employee Housing	$ 774,487
Total	$3,437,393

Q. How did the Company develop its Working Capital Allowance Components?

A. According to Company witness Jacobson, the following approached were used to develop the Working Capital Components:

- The Materials and Supplies and Fuel Stocks were restated to a thirteen-month average reflecting actual balances through April 2017 with May through December remaining at 2016 levels. (Company Statement L, page 12 and 13 of 22).
- The Prepayments were restated to a thirteen-month average balance based upon projected 2017 and 2018 insurance expenses. (Company Statement I, page 14 of 22).
- The Unamortized Loss on Debt was calculated using the balances as of December 31, 2016, and adding the calculated change for 2017, which reflected a reallocation of the balance and the annual amortization, to arrive at a balance for 2017. The 2016 and 2017 balances were averaged to reflect the 2017 average unamortized loss on debt. The process was repeated to calculate the 2018 average unamortized loss on debt. (Company Statement L, page 15 of 22).
- The Unamortized Redemption of Preferred Stock Cost occurred when the Company redeemed all outstanding preferred stock. A call premium of $600,000 was incurred upon redemption of preferred stock. The Company is proposing to amortize the balance over a 15-year period. (Company Statement L, page 16 of 22).
- The Gain on Sale of Buildings resulted from the sale of office buildings in Williston and Watford City. This resulted in a gain. The Company is amortizing the gain over a 20-year period as authorized in Case No. PU-15-090. (Company Statement L, page 17 of 22).
- The Loss on Sale of Employee Housing resulted from the expansion of oil development in western North Dakota, which created a lack of housing

units. Over time, the number of housing units increased. The manufactured homes provided by the Company were no longer needed, and the Company disposed of all the housing units, at a loss. The Company is proposing to amortize the loss over a 20-year period. (Company Statement L, page 18 of 22).

Q. What changes do you have regarding the Company's Working Capital Allowance Components?

A. I accept the Company's proposal related to its components of its Average Working Capital. The only adjustment that I have is related to the Company's proposal regarding its Loss on Sale of Employee Housing of $774,487 (Statement L page 1 and 18 of 22). I am recommending removal of this cost for ratemaking purposes.

Q. Why are you removing this Rate Base component?

A. The Company has requested to recover the loss on the sale of manufactured housing it purchased to house employees. On pages 35 and 36 of the Company's witness Mr. Jacobson's testimony, the reason for the purchase and loss on the sale of manufactured housing is discussed. As should have been expected, when a shortage occurs within a housing market, builders move in to fill that shortage with new homes, which is what occurred in this instance. The Company should have known that the housing stock would catch up with demand and made other arrangements, such as helping its workers and employees procure rental manufactured units. These are readily available and could have been used to provide employee housing. In addition, there are several accounting issues with respect to this cost item. If the housing was for temporary employee housing the usual utility practice is to expense the temporary housing as a O&M expense. If it was not for temporary housing, then the cost of the housing should have been paid for by the employees because it was for a permanent residence. In either of these situations, this is not a legitimate capital investment and should have been treated as an O&M expense. These costs should have been paid through the Company's operating expense account. I believe it is inappropriate to recover costs associated with the loss on employee housing, as I believe this was a business decision and business risk that the Company pursued on its own. Secondly, in response to Data Request No. 6-15, the Company stated that there was high turnover as employees would switch from company to company in pursuit of higher wages, partially driven by the high cost of housing.

Q. Are the costs of Employee Housing a typical Rate Base component?

A. No. The Company stated that the cost incurred to purchase the housing units were necessary to provide safe and reliable service. I do not see that correlation. The purchased housing was temporary in nature, and was not expected to be a long-term cost for the Company.

Q. What is your adjustment?

A. My adjustment removes the average balance of $774,487 from Rate Base and is shown on my Schedule DM-16.

D. Accumulated Deferred Income Taxes

Q. What has the Company proposed regarding its Accumulated Deferred Income Taxes (ADIT)?

A. The Company has proposed an ADIT balance of $21,051,979, as shown on Company Statement L, page 1 and 20 of 22. The Company's projected balances were derived by adding the changes to the deferred income taxes for 2017 and 2018 to the 2016 balances and calculating the average balance. (Company witness Jacobson's testimony page 21).

Q. What are your adjustments?

A. My adjustments are to my recommended Gas Plant In Service balance of $264,288,766. Since I made adjustments to the Company's Distribution, General and Common plant balance, I am making corresponding adjustments associated with the calculation of the ADIT balance. I utilized the Company's methodology of average balances which are shown on my Schedule DM-19 – Liberalized Depreciation, as well as, removing the Loss on Sale of Employee Housing of $292,768 for reason as described above. My recommended ADIT balance reduces the Company's ADIT balance from $21,051,980 to $20,705,077, a difference of $346,902. This is carried over to my Schedule DM-16- Average Rate Base.

E. Customer Advances

Q. What has the Company proposed regarding its Customer Advances (CA)?

A. The Company proposed a balance of Customer Advances of $16,015,326 as shown on Company Statement L, page 19 of 22. The Company restated the CA balance to a thirteen-month average balance for 2017 and 2018, with actuals through April 2017.

Q. What changes do you have regarding the Company's CA balance?

A. I am accepting the Company's CA level of $16,015,326.

Q. Does this conclude your testimony?

A. Yes, it does. I reserve the right to update my testimony once the Company has updated its filing.

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Regulatory Projects and Appearances

1. In Re: Middlesex Water Company – Base Rate Case Proceeding for Water Service. (Appearance: revenue requirement on behalf of the NJ Division of Rate Counsel). New Jersey Board of Public Utilities – BPU Docket No. WR17101049.

2. In Re: Township of East Brunswick – Sewer Rate Study – (Evaluation of the existing sewer rate structure and examining and quantify costs for future expansion).

3. In Re: Montana-Dakota Utilities – Base Rate Case Proceeding for Gas Service. (Appearance: revenue requirement on behalf of the North Dakota Public Service Commission). NDPSC Docket No. PU-17-295.

4. In Re: Andover Utility Company – Base Rate Case Proceeding for Wastewater Services. (Appearance: revenue requirement on behalf of the New Jersey Division of Rate Counsel). New Jersey Board of Public Utilities – BPU Docket No. WR17070726.

5. In Re: Public Service Electric and Gas Company- Approval of Changes in its Electric and Gas Green Programs Recovery Charges "2017 Public Service Electric & Gas Green Programs Cost Recovery Filing. (Appearance: revenue requirement on behalf of the New Jersey Division of Rate Counsel). New Jersey Board of Public Utilities – BPU Docket Nos. ER17070724 and GR17070725.

6. In Re: Bay States Gas Company d/b/a Columbia Gas of Massachusetts, 2016 Gas System Enhancement Program Reconciliation Filing, (Appearance: revenue requirement on behalf of the Massachusetts Attorney General's Office of Ratepayer Advocacy).
   Commonwealth of Massachusetts Department of Public Utilities – Docket No. D.P.U. 17-GREC-05.

7. In Re; NSTAR Gas Company d/b/a Eversource Energy, 2016 Gas System Enhancement Program Reconciliation Filing (Appearance: revenue requirement on behalf of the Massachusetts Attorney General's Office of Ratepayer Advocacy.
   Commonwealth of Massachusetts Department of Public Utilities – Docket No. D.P.U. 17-GREC-06.

8. In Re: Petition of Columbia Gas of Maryland – Increase in rates for Distribution Service – (Appearance: revenue requirement on behalf of the Office of People's Counsel) Public Service Commission of Maryland – Case No. 9447

9. In re: Petition of South Jersey Gas Company – Increase in base rates for gas services – (Appearance: revenue requirement on behalf of the NJ Division of Rate Counsel)
   New Jersey Board of Public Utilities – Docket No. GR17010071

10. In re: Petition of UGI Penn Natural Gas – Increase in base rates for gas services – (Appearance: revenue requirement on behalf of the Pennsylvania Office of Consumer Advocate)
    Pennsylvania Public Utilities Commission Docket No. R-2016-2580030

11. In re: Petition of PJM Interconnection, LLC. – Mid-Atlantic Interstate Transmission, LLC. Formula Rate Filing. (Appearance on behalf of the Pennsylvania Office of Consumer Advocate).
    FERC Docket No. ER17-211-000

12. In re: Petition of Pivotal Utility Holdings, Inc. d/b/a Elizabethtown Gas Company for approval of Increased Base Tariff Rates and Charges for Gas Service and Other Tariff Revisions (Appearance: revenue requirement on behalf of the New Jersey Division of Rate Counsel)
    New Jersey Board of Public Utilities Docket No. GR16090826

13. In re: Petition of SUEZ Water New Jersey, et al – Approval of a Management and Services Agreement pursuant to N.J.S.A 48: 3-7.1 (Appearance on the reasonableness of contract agreements on behalf of the New Jersey Division of Rate Counsel)
    New Jersey Board of Public Utilities Docket No. WO16080806

14. In re: Petition of SUEZ Water Arlington Hills Inc. – Approval of an Increase in Rates for Wastewater Services and other Tariff Changes (Appearance: revenue requirement on behalf of the New Jersey Division of Rate Counsel)
    New Jersey Board of Public Utilities Docket No. WR16050510

15. In re: Petition of Public Service Electric and Gas Company – 2016 Marginal Adjustment Clause (MAC) (Appearance; reconciliation and rate setting on behalf of the New Jersey Division of Rate Counsel)
    New Jersey Board of Public Utilities Docket No. GR16060484

16. In re: Petition of Public Service Electric and Gas Company for Approval of Changes in its Electric Green Programs Recovery Charges and its Gas Green Program Recovery Charges 2016 PSEG Program Cost Recovery Filing (Appearance: reconciliation and rate setting on behalf of the New Jersey Division of Rate Counsel)
    New Jersey Board of Public Utilities Docket Nos. ER16070613 and GR16070614

17. In re: Petition of the Mount Olive Village Sewer Company, Inc., for Approval of an Increase in Rates for Service (Appearance: revenue requirement on behalf of the New Jersey Division of Rate Counsel)
    New Jersey Board of Public Utilities Docket No. WR16050391

18. In re: Petition of the Mount Olive Village Water Company, Inc. for Approval of an Increase in Rates for Service (Appearance; revenue requirement on behalf of the New Jersey Division of Rate Counsel)
    New Jersey Board of Public Utilities Docket No. WR16050390

19. In re: Petition of Fitchburg Gas and Electric Light Company d/b/a Unitil for Approval of its 2015 Gas System Enhancement Plan Reconciliation Filing (2016) - (Analysis and Advice to Counsel: computation of the revenue requirement and rate impact on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)
    MA Department of Public Utilities Docket No. D.P.U. 16-GREC-01

20. In re: Petition of Bay State Gas Company d/b/a Columbia Gas of Massachusetts for Approval of its 2015 Gas System Enhancement Plan Reconciliation Filing (2016) - (Appearance: computation of the revenue requirement and rate impact on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)
    MA Department of Public Utilities Docket No. D.P.U. 16-GREC-05

21. In re: Petition for Approval of Gas Infrastructure Contract Between Public Service Company of New Hampshire d/b/a Eversource Energy and Algonquin Gas Transmission, LLC (2016) - (Analysis and Advice to Counsel: compliance with statutes and regulations, review of contract, and ratemaking on behalf of the New Hampshire Office of Consumer Advocate)
    NH Public Utilities Commission Docket No. DE 16-241

22. In re: Central Maine Power Company, Annual Compliance Filing and Price Change (2016) - (Analysis and Advice to Counsel; tax normalization regulatory asset on behalf of the Maine Office of the Public Advocate)
    ME Public Service Commission Docket No. 2016-00035

23. In re: Bulletin 2015-10 Generic Proceeding to Establish Parameters for the Next Generation PBR Plans (Appearance: productivity adjustments/performance based ratemaking on behalf of the Alberta Utilities Consumer Advocate)
    Alberta Utilities Commission Proceeding 20414

24. In the Matter of Request by Emera Maine for Approval of a Rate Change (2016) - (Appearance: revenue requirement on behalf of the Maine Office of the Public Advocate)
    Maine Public Utilities Commission Docket No. 15-00360)

25. In the Matter of the Joint Application of the Southern Company, AGL Resources Inc., and Pivotal Holdings, Inc. d/b/a Elkton Gas (2015-2016) - (Analysis and advice to counsel: customer service impacts, employee impacts, supplier diversity on behalf of the Maryland Office of People's Counsel)
    MD PSC Case No. 9404

26. In the Matter of the Merger of Southern Company and AGL Inc. (2015-2016) - (Appearance: customer service impacts and employee impacts on behalf of the NJ Division of Rate Counsel)
    New Jersey BPU Docket No. GM15101196

27. In the Matter of the United Water New Jersey, Inc., for Approval of an Increase in Rates for Water Service and Other Tariff Changes (2015-2016) - (Appearance: revenue requirements, rate base issues and operating income on behalf of the NJ Division of Rate Counsel)
    New Jersey BPU Docket No. WR15101177

28. In re: Petition of Boston Gas Company and Colonial Gas Company d/b/a National Grid for Approval of Precedent Agreements with Millennium Pipeline Company, LLC (2015) - (Analysis: review of contract and compliance of the Gas Supply Plan on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)
    MA D.P.U. 15-130

29. In re: Petition of Boston Gas Company and Colonial Gas Company d/b/a National Grid for Approval of Agreements for LNG or Liquefaction Services with GDF Suez Gas NA, LLC; Northeast Energy Center, LLC; Metro LNG, L.P.; and National Grid LNG (2015) - (Analysis: review of contract and compliance of the Gas Supply Plan on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)
    MA D.P.U. 15-129

30. In re: Columbia Gas of Massachusetts CY2014 Targeted Infrastructure Reinvestment Factor (TIRF) Compliance Filing (2015) - (Appearance: computation of the revenue requirement impact on the TIRF on behalf of the Massachusetts Attorney General Office of Ratepayer Advocacy)
    MA D.P.U. 15-55

31. In the Matter of the Bay State Gas Company d/b/a Columbia Gas of Massachusetts for Approval of its Targeted Infrastructure Reinvestment Factor (TIRF) for CY 2013 (2014) - (Appearance: computation of the revenue requirement impact on the TIRF)
    MA D.P.U. 14-83

32. In the Matter of the Merger of Exelon Corporation and Pepco Holdings, Inc. (Atlantic City Electric Company) (2014-2015) - (Appearance: customer service impacts)
    New Jersey BPU Docket No. EM14060581

33. Public Utilities Commission of Ohio, in the Matter of the Application of Aqua Ohio, Inc. to Increase its Rates and Charges for its Waterworks Service. – Revenue and Rates (2014) - (Appearance: operating income, certain rate base issues and income taxes on behalf of the Ohio Office of Consumer Counsel)
    PUCO Case No. 13-2124-WW-AIR

34. New York Public Service Commission, as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. Revenue Requirement (2013-2014) – (Appearance: revenue requirement, rate base issues and operating income on behalf of the Intervenor, the County of Westchester)
    NYPSC Case Nos. 13-E-0030, 13-G-0031 and 13-S-0032, et al

35. North Dakota Public Service Commission, - Application of Northern States Power Company for Authority to Increase Rates for Electric Service in North Dakota, On-Going Revenue Requirement (2013) - (Appearance: revenue requirement and rate base, operating income, operating and maintenance expenses on behalf of the North Dakota Public Service Commission Staff)
    North Dakota Case No. PU-12-813

36. In the Matter of the Petition of New Jersey American Water Company for Authorization to Implement a Distribution System Improvement Charge (DSIC) Order Denying Petition and Instituting Stakeholder Process (2008) - (Case manager on policy decision and revenue requirement impact on behalf of the Staff of the NJ Board of Public Utilities)
    BPU Docket No. WO08050358

37. In the Matter of the Joint Petition of the City of Trenton, New Jersey and New Jersey-American Water Company, Inc. for Authorization of the Purchase and Sale of the Assets of the Outside Water Utility System ("OWUS") of the City of Trenton, New Jersey and for Other Relief Order Adopting Initial Decision, (2008) - (Case manager on the revenue requirement impact on behalf of the Staff of the NJ Board of Public Utilities)
    BPU Docket No. WM08010063

38. In the Matter of the Petition of United Water New Jersey, United Water Toms River, United Water Lambertville, United Water Mid-Atlantic and Gaz de France for Approval as Need for a Change in Ownership and Control (2007) - (Case manager on customer impact, employee impact and impact on rates on behalf of the Staff of the NJ Board of Public Utilities)

BPU Docket No. WM06110767

39. In the Matter of the Petition of United Water Arlington Hills Sewerage, Inc. for an Increase in Rates for Waste Water Service and Other Tariff Changes (2009) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)
BPU Docket No. WR08100929

40. In the Matter of the Petition of United Water New Jersey Inc. for Approval of an Increase in Rates for Water Service and Other Tariff Changes, (2009) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)
BPU Docket No. WR08090710

41. In the Matter of the Petition of United Water Toms River, Inc. for Approval of an Increase in Rates for Water Service and Other Tariff Changes (2008) - (Case manager on the revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)
BPU Docket No. WR08030139

42. In the Matter of the Joint Petitioners of New Jersey-American Water Company, Inc., S.J. Services, Inc., South Jersey Water Company, Inc. and Pennsgrove Water Supply Company, Inc. for Among Other Things Approval of a Change in Control of South Jersey Water Supply Company, Inc. and Pennsgrove Water Supply Company, Inc. (2007) - (Case manager on the overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)
BPU Docket No. WM07020076

43. In the Matter of the Petition of Aqua, New Jersey, Inc. for Approval of an Increase in Rates for Water Service and Other Tariff Changes (2008) - (Case manager on revenue requirement and the overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)
BPU Docket No. WR0712095

44. I/M/O the Joint Petition of Thames Water, Aqua Holdings GMBH, on Behalf of Itself and Its Parent Holdings Company, RWE Aktiengesellschaft, Thames Water Aqua US Holdings, Inc., American Water works Company Inc., Thames Water Holdings Incorporated, E'town Corporation, New Jersey-American Water Company, Inc., Elizabethtown Water Company, the Mount Holly Water Company and Applied Wastewater Management, Inc. for Confirmation that the Board of Public Utilities Does Not Have Jurisdiction Over, or, Alternatively, for Approval of a Proposed Transaction Involving, Among Other Things, the Sale by Thames Water Aqua Holdings GMBH of Up to 100% of the Shares of the Common Stock of American Waterworks Company, Inc. in One or More Public Offerings (2007) - (Case manager on revenue requirement impacts, effect on rates and effect on service on behalf of the Staff of the NJ Board of Public Utilities)
    BPU Docket No. WM06050388

45. In the Matter of the Petition of Elizabethtown Water Company for Approval of an Increase in Rates for Water Service (2007) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)
    BPU Docket No. WR03070510

46. In the Matter of the Petition of New Jersey American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Sewer Service; Increased Depreciation Rates and Other Tariff Revisions (2008) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)
    BPU Docket No. WR08010020

47. In the Matter of Middlesex Water Company for Approval of an Increase in its Rates for Water Service and Other Tariff Changes (2007) - (Case manager on overall revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)
    BPU Docket No. WR07040275

48. In the Matter of the Joint Petition of United Water New Jersey, Inc., United Water Arlington Hills, Inc., United Water Hampton, Inc., United Water Vernon Water Hills, Inc., and United Water Lambertville, Inc. for an Increase in Rates and Charges for Water Service and Other Tariff Changes and for Approval to Merge the Operations of the Joint Petitioners into and with United Water New Jersey, Inc. (2007) - (Case manager on revenue requirement and overall rate proceeding on behalf of the Staff of the NJ Board of Public Utilities)
    BPU Docket No. WR07020135

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

North Dakota PSC
Case No. PU-17-295

Schedule DM-1

OPERATING INCOME SUMMARY

		(1) Company Present	Adjustments	Company Proposed	Adjustments	NDPSC Staff	References
1	**Operating Revenues**						
2	Sales	$ 106,410,946	$ 5,863,197	$ 112,274,143	$ 2,461,249	$ 108,872,195	
3	Transportation	$ 2,197,896	$ -	$ 2,197,896	$ -	$ 2,197,896	DM-4
4	Other	$ 3,527,788	$ -	$ 3,527,788	$ (462,280)	$ 3,065,508	DM-4
5	**Total Revenues**	**$ 112,136,630**	**$ 5,863,197**	**$ 117,999,827**	**$ 2,000,081**	**$ 114,136,711**	
	% Increase		5.23%		1.784%		
6	**Operating Expenses**						
7	Operation and Maintenance						
8	Cost of Gas	$ 70,913,006	$ -	$ 70,913,006	$ -	$ 70,913,006	DM-5
9	Other Operation and Maintenance	$ 21,532,698	$ -	$ 21,532,698	$ (1,816,892)	$ 19,715,806	DM-5
10	Depreciation Expense	$ 9,206,297	$ -	$ 9,206,295	$ (326,130)	$ 8,880,165	DM-13
11	Taxes Other Than Income	$ 2,039,599	$ -	$ 2,039,599	$ (65,993)	$ 1,973,606	DM-14
12	Income Taxes	$ 1,876,170	$ 2,216,377	$ 4,092,547	$ (583,325)	$ 3,509,222	DM-15
13	**Total Expenses**	$ 105,567,770	$ 2,216,375	$ 107,784,145	$ (575,965)	$ 104,991,805	
14	**Operating Income**	**$ 6,568,860**	**$ 3,646,822**	**$ 10,215,682**	**$ 2,576,046**	**$ 9,144,906**	
15	**Rate Base**	**$ 135,450,560**	**$ -**	**$ 135,450,560**	**$ (4,550,633)**	**$ 130,899,926**	DM-16
16	**Rate of Return**	**4.850%**		**7.542%**		**6.990%**	
			1.60776	$ 10,215,296		$ 9,149,905	

(1) Company Statement J 3 of 3

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

North Dakota PSC
Case No. PU-17-295

Schedule DM-2

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%	8.910%	4.544%	Exhibit MFG-8 Schedule 1
11	**Total**	**$1,493,945,095**	**100.000%**		**6.986%**	

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

North Dakota PSC
Case No. PU-17-295

Schedule DM-3

GROSS UP FACTOR

	(1) Company Proposed	Adjustments	NDPSC Staff	References
Federal Tax Rate	35.00000%		35.00000%	
State Tax Rate	4.31000%		4.31000%	
Combined Federal and State	37.80150%		37.80150%	
1-tax rate	62.19850%		62.19850%	
Gross Up Factor	1.60776		1.60776	

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

North Dakota PSC
Case No. PU-17-295

Schedule DM-5

SUMMARY OF O&M EXPENSES

		Company Proposed	Adjustments	NDPSC Staff	References
1	Cost of Gas	$ 70,913,006	$ -	$ 70,913,006	DM-6
2	Other Gas Supply	$ 372,123	$ (15,934)	$ 356,189	DM-7
3	Distribution	$ 9,523,054	$ (522,591)	$ 9,000,463	DM-8
4	Customer Accounting	$ 2,942,096	$ (128,425)	$ 2,813,671	DM-9
5	Customer Service and Information	$ 254,198	$ (52,879)	$ 201,319	DM-10
6	Sales	$ 94,299	$ (4,926)	$ 89,373	DM-11
7	Administrative and General	$ 8,346,928	$ (475,501)	$ 7,871,427	DM-12
8	Aircraft Expenses	$ -	$ (446,796)	$ (446,796)	Response 6.1 and 6.2
9	MDUR/FutureSource	$ -	$ (169,840)	$ (169,840)	Response to 6.2
10	**Total O & M Expenses**	**$ 92,445,704**	**$ (1,816,892)**	**$ 90,628,812**	

(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	$ (7)	$ -	2.24 (a) Attach A
(3)	Labor - Incentive Compensation		$ (12,297)	$ -	
(4)	Labor - Bonus and Commission		$ (8)	$ 276,498	
	Subcontract Labor	$ 1,148	$ (25)	$ 1,123	Statement K p15
	Vehicles & Work Equipment	$ 2,072	$ (295)	$ 1,777	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**	**$ (15,934)**	**$ 356,189**	

(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**

Montana-Dakota Utilities Co.
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North Dakota PSC
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Schedule DM-8

DISTRIBUTION

		(1) Company Proposed	Adjustments	NDPSC Staff	References
(2)	Labor - Premium OT	$ 6,513,565	$ (6,799)	$ -	2.24 (a) Attach A
(3)	Labor - Incentive Compensation		$ (295,765)		
(4)	Labor - Bonus and Commission		$ (35,209)	$ 6,175,792	
	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	$ (120,897)	$ 726,938	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**	**$ (522,591)**	**$ 9,000,463**	

(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

		(1) Company Proposed	Adjustments	NDPSC Staff	References
(2)	Labor	$ 1,823,384	$ (399)	$ -	2.24(a) Attach A
(3)	Labor - Incentive Compensation		$ (84,923)		
(4)	Labor - Bonus and Commission		$ (11,783)	$ 1,726,279	
	Subcontract Labor	$ 60,759	$ (1,320)	$ 59,439	Statement K p15
	Materials	$ 136	$ (3)	$ 133	Statement K p16
	Vehicles & Work Equipment	$ 63,437	$ (9,046)	$ 54,391	Statement K p17
	Uncollectible Accounts	$ 338,099	$ -	$ 338,099	Statement K p2, 19
	Postage	$ 353,028	$ (9,626)	$ 343,402	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**	**$ (128,425)**	**$ 2,813,671**	

(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	$ (523)	$ 3,145	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**	**$ (52,879)**	**$ 201,319**	

(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)	$ -	2.24(a) Attach A
(3)	Labor - Incentive Compensation		$ (3,612)		
(4)	Labor - Bonus and Commission		$ (385)	$ 74,880	
	Subcontract Labor	$ 6,258	$ (136)	$ 6,122	Statement K p15
	Vehicles & Work Equipment	$ 4,152	$ (592)	$ 3,560	Statement K p17
	Postage	$ 353	$ -	$ 353	Statement K p20
	All Other O&M	$ 4,658	$ (200)	$ 4,458	Statement k p27
	Total	**$ 94,299**	**$ (4,926)**	**$ 89,373**	

(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	$ (163)	$ -	2.24 (a) Attach A
(3)	Labor - Incentive Compensation		$ (97,568)		
(4)	Labor - Bonus and Commission		$ (105,490)	$ 2,221,970	
	Benefits	$ 2,627,191	$ (88,737)	$ 2,538,454	Response to 2.30
	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	$ (3,943)	$ 23,707	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 Response 2.37 6.50 and WP K125
	Advertising	$ 45,114	$ (22,557)	$ 22,557	WP K126-136
	Industry Dues	$ 71,088	$ (6,844)	$ 64,244	Statement K p24 WP K137-145
	Insurance	$ 638,352	$ (30,398)	$ 607,954	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	**$ 8,346,928**	**$ (475,501)**	**$ 7,871,427**	

		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**	**$ (48,336)**	**$ 775,709**	Statement K p35
Franchise Taxes			$ 6,204	$ -	$ 6,204	
Delaware Taxes			$ 29,092	$ -	$ 29,092	
Other			$ 1,100	$ -	$ 1,100	
			$ 2,039,599	**$ (65,993)**	**$ 1,973,606**	

(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**	**$ 5,863,197**	**$ 117,999,827**		**$ 114,136,711**	
Operating Expenses						
Cost of Gas	$ 70,913,006		$ 70,913,006		$ 70,913,006	
Other O&M Expenses	$ 21,532,698		$ 21,532,698		$ 19,715,806	
Depreciation and Amortization	$ 9,206,295		$ 9,206,295		$ 8,880,165	
Taxes Other than Income	$ 2,039,599		$ 2,039,599		$ 1,973,606	
Total Operating Expenses	**$ 103,691,598**		**$ 103,691,598**		**$ 101,482,584**	
Gross Operating Income	**$ 8,445,032**		**$ 14,308,229**		**$ 12,654,127**	
AFUDC Equity Add Back	$ 59,300		$ 59,300		$ 59,300	
Permanent Additions	$ 37,500		$ 37,500		$ 37,500	
Interest Synchronization	$ 3,307,703		$ 3,307,703		$ 3,196,728	(2)
Taxable Income	**$ 5,234,129**		**$ 11,097,326**		**$ 9,554,200**	
Federal and State Tax Rate	37.8015%		37.8015%		37.8015%	
Total Federal and State Income Taxes	$ 1,978,579		$ 4,194,956		$ 3,611,631	
Full Normalization	$ (102,409)		$ (102,409)		$ (102,409)	
Total Income Taxes	**$ 1,876,170**	**$ 2,216,376**	**$ 4,092,547**	**$ (583,325)**	**$ 3,509,222**	

(1) Company Statement K, p 36

(2)

Recommended Rate Base	$ 130,899,926
Recommended Cost of Debt	2.442%
Interest Synchronization	$ 3,196,728

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

North Dakota PSC
Case No. PU-17-295

Schedule DM-16

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-17
Accumulated Depreciation	$ 99,474,549	$ (143,206)	$ 99,331,343	DM-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	$ 21,051,980	$ (346,902)	$ 20,705,077	DM-19
Customer Advances	$ 16,015,326	$ -	$ 16,015,326	
Total Deductions to Rate Base	**$ 37,067,306**	**$ (346,902)**	**$ 36,720,403**	
Total Average Rate Base	**$ 135,450,560**	**$ (4,550,633)**	**$ 130,899,926**	

(1) Company Statement L p 1

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

North Dakota PSC
Case No. PU-17-295

Schedule DM-17

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

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-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-13
Work Equipment	$ (484,004)	$ 284,911	$ (850,286)	$ (1,049,379)	$ (766,692)	$ (12,910)	$ (779,602)	DM-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-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-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

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	$ 1,545,196	$ 27,926,637	$ 27,926,637	$ (54,134)	$ 27,872,503	
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**	**$ 1,258,585**	**$ 20,908,674**	**$ 21,051,980**	**$ (346,902)**	**$ 20,705,077**	

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 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 15th day of December, 2017.

Carolyn T Rehmann
Notary Public
New Jersey
My Commission Expires 3-7-2022
No. 2418159

Carolyn T Rehmann

Notary Public
My Commission Expires: 3-7-2022