

Surrebuttal Testimony and Schedules

Dante Mugrace

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

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

Case No. PU-17-295

Overall Revenue Requirement

Rate Base

Income Statement

April 30, 2018

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I. Introduction

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

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

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

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

II. Purpose of Testimony

Q. What is the purposed of your rebuttal testimony?

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

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

1 **A.** With my adjustments, I have calculated a revised revenue requirement of
2 \$867,496 or 0.774% over current rates. This revised revenue requirement takes
3 into account the Tax Cuts and Jobs Act of 2017 that reduces the Federal Corporate
4 Income Tax from 35% to 21%. My recommended revenue requirement includes
5 an overall rate of return of 7.150% with a common equity component of 9.23%
6 as recommended by Dr. Marlon Griffing.

7
8 **Q. What has the Company proposed regarding its updated revenue
9 requirement?**

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

12
13 **III. Revenue Requirement Issues**

14 **A. Labor Expense – Incentive Compensation**

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

17 **A.** Mr. Kaiser stated that he does not agree with my adjustment to reduce or eliminate
18 incentive compensation by 60%. He stated that the 60% reduction was arrived
19 via a settlement discussion at which the Company agreed that an arbitrary
20 reduction was justified. Mr. Kaiser stated that there are three basic principles MDU
21 uses to design its incentive compensation. (Kaiser rebuttal page 3). The first
22 principle or approach views base pay and incentive compensation as the two key
23 components of total cash compensation. (base pay and at-risk). The second
24 principle or approach compares company wages and at-risk pay with relative labor
25 markets and sets a total cash compensation at the market average. He stated
26 that the total cash compensation must provide the same general pay levels and
27 benefits in the Company's total reward package as provided by the Company's

1 competitors for labor. The third principle or approach encourages employee
2 engagement. Each employee has the opportunity to receive total cash
3 compensation and benefits at the market average, so long as the employee
4 performs at an acceptable level and is aligned with the market average (Kaiser
5 rebuttal page 3-4).

6
7 **Q. What did Mr. Kaiser state, absent incentive compensation, were other**
8 **means of maintaining adequate compensation?**

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

14
15 **Q. Did Mr. Kaiser state that MDU achieved the goals outlined in the 2016**
16 **and 2017 Employee Incentive Compensation Plans?**

17 **A.** Yes. Mr. Kaiser stated that the goals were achieved and were available in February
18 2018. (Kaiser rebuttal page 7).

19
20 **Q. Did Mr. Kaiser provide the level of incentive compensation actually paid**
21 **to the employees of MDU in its rebuttal testimony?**

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

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

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

6

7 **Q. What is your recommendation?**

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

1 ratepayers by creating an all or nothing approach even though there is a benefit
2 to shareholders through incentive compensation.

3
4
5 Labor Expense – Premium Time

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

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

12
13 **Q. What is your recommendation?**

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

18
19 B. Medical/Dental Insurance

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

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

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

3
4 **Q. What is your recommendation?**

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

8
9 **Q. What did Mr. Jacobson state regarding your adjustment to the**
10 **Company's Insurance Expense?**

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

14
15 **Q. What is your recommendation?**

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

19
20 C. Vehicles and Work Equipment

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

23 **A.** Mr. Jacobson stated that the Company did not propose to change the accounting
24 method for vehicles and work equipment (Jacobson rebuttal page 7). Mr.
25 Jacobson stated that the proposed adjustment to vehicles and work equipment

1 expense was based entirely on the change in the depreciation rates. Mr. Jacobson
2 also did not agree with my three-year average for changes in plant in service due
3 to purchases or disposals of vehicles and work equipment that results in a
4 mismatch.

5
6 **Q. What is your recommendation?**

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

17
18 D. Inflation Factors

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

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

1 **Q. What is your recommendation?**

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

9

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

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

16

17 **Q. What is your recommendation?**

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

22

23

24

¹ <https://www.stamps.com/usps/postage-rate-increase/>

1 E. MDU Resources, FutureSource

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

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

8
9 **Q. What is your recommendation?**

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

13
14 F. Aircraft Costs

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

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

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

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

14

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

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

20 **Q. What is your response?**

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

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

3
4 G. Advertising

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

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

12
13 **Q. What is your response?**

14 **A.** As I testified to in my Direct Testimony, there are many entries that are not specific
15 to the Company's North Dakota Gas Service Operations. It is difficult to separate
16 out advertising costs related to the North Dakota Gas Service Operations. Further,
17 the balances in the Company's workpapers do not coincide with the Company's
18 Statement K page 23. The Company should provide a reconciliation of its
19 workpapers to its Statement K page 23 so that a full and complete understanding
20 of how the Company accounts for its Advertising is properly reflected and
21 identified. With regard to Mr. Jacobson stating that my adjustment was
22 duplicative, and without merit, I made my adjustment based upon the Company's
23 level of Advertising Expense for the projected period 2018. The Company made
24 an adjustment to remove Promotional Advertising Expense of \$43,846 (Statement
25 K), and a slight adjustment to its Informational Advertising (\$24) and to its
26 Institutional Advertising (\$728) which were the only adjustments to the Company's
27 per books 2016 balance. I did not duplicate any adjustments. Given this

1 information, I am inclined to keep my 50% disallowance of the Company
2 Advertising Expense. My adjustments are shown on my Schedules DM Surr-10
3 and 12.

4
5 H. Industry Dues

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

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

13
14 **Q. What is your recommendation?**

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

1 I. Income Taxes

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

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

20
21 **Q. Has the Company determined the full impact of the TCJA?**

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

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

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

6
7 **Q. Please describe how the Company accounted for the Excess Deferred**
8 **Income Tax (EDIT) under the TCJA?**

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

18
19 **Q. What did the Company calculate regarding the annual EDIT adjustments**
20 **to be included in its Income Tax Expense?**

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

23
24 **Q. What is your recommendation?**

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

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

4
5 **Q. Please describe how the Company accounted for the second group of**
6 **EDIT- namely the non-plant deferred tax balance.**

7 **A.** Mr. Jacobson stated that the non-plant EDITs are associated with a number of
8 assets and liabilities with differing lives and are not subject to ARAM. These are
9 related to pension and post-retirement benefits having an estimate life of 20 years,
10 and customer advances with a 5-year life. The Company is proposing to recognize
11 these EDITs over a 10-year period which represents a reasonable time period
12 based upon the weighted average life in which deferred taxes as of December 31,
13 2017 will be realized. Mr. Jacobson has proposed an annual amortization of
14 \$65,417 which increases income tax expense and partially offsets the plant EDITs.
15 (Jacobson rebuttal page 21-22).

16
17 **Q. What is your recommendation?**

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

1 like to have the Company to provide documentation that separates out the specific
2 North Dakota non-plant items that make up the \$654,168.

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

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

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

13 **A.** Mr. Jacobson has calculated total Income Taxes for the projected 2018 period of
14 \$1,698,297 as shown on Exhibit TRJ-5 page 1 of 8). This is a reduction of
15 \$2,394,249 from the Company's initial filing of \$4,092,546 as shown on Exhibit
16 TRJ-6 page 1 of 8).

17
18 **Q. What have you calculated regarding the Company's Income Taxes using**
19 **the revised Federal Income Tax Rate of 21%?**

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

1 **IV. Rate Base Issues**

2 **A. Gas Plant In Service**

3 **a. SSIP**

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

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

16
17 **Q. What is your recommendation?**

18 **A.** As per the recommendation of Dr. Karl Pavlovic, and as I stated in my direct
19 testimony, I am recommending that the Company not include the costs associated
20 with the main replacements and service replacements totaling \$5,533,154 in its
21 rate base under either the SSIP or as part of its plant addition investments in 2018.
22 The Company has not provided a full and complete plan, nor has provided any
23 updated information regarding the necessity and prudence of these projects.
24 Further, the Company’s testimony unnecessarily takes an all or nothing approach
25 to replacement projects. Rather than the SSIP, the Company should identify
26 reasonable, necessary, and prudent replacement projects to include in its rate
27 base. Instead, the Company is only including the SSIP, in an apparent attempt to

1 force the Commission into approving all replacement projects it may want instead
2 of only those that may be reasonable, necessary, and prudent. My
3 recommendation is shown on my Schedule DM Surr-17.

4
5 b. Vehicles and Work Equipment

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

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

12
13 **Q. What do you have to add regarding Mr. Jacobson's argument?**

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

1 c. Aircraft Equipment

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

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

12
13 **Q. What is your response?**

14 **A.** As I previously stated earlier in my testimony, the Company has not shown or
15 provided any comparison of costs for commercial air travel, nor has the Company
16 provided a breakdown of costs that is not related to aircraft uses (Response to
17 6.02). The Company should consider alternative travel arrangements within the
18 state of North Dakota to conduct its business related to gas operations. (rail
19 service, car rental, etc). The Company's shareholders should bear the costs of the
20 chartered air travel that exceeds the cost of a commercial air flight.

21
22 B. Working Capital Components – Loss on Sale of Manufactured
23 Homes

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

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

10

11 **Q. What is your response?**

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

23

24

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

1 C. Accumulated Deferred Income Taxes

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

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

7
8 **Q. Do you accept the Company's adjustments and methodology?**

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

17
18 **Q. Does this conclude your Surrebuttal Testimony?**

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

OPERATING INCOME SUMMARY

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

(1) Company Statement J 3 of 3

RATE OF RETURN

1 Company Proposed (1)	Balance	Ratio	Cost	Required Return	References
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

NDPSC Staff Proposed

7 Long Term Debt	\$ 642,930,015	43.036%	5.282%	2.273%	
8 Short Term Debt	\$ 89,161,765	5.968%	2.831%	0.169%	
9 Preferred Stock	\$ -	0.000%	0.000%	0.000%	
10 Common Equity	\$ 761,853,315	50.996%	9.230%	4.707%	Exhibit MFG-8 Schedule 1
11 Total	\$ 1,493,945,095	100.000%		7.149%	

<u>GROSS UP FACTOR</u>	(1)			
	<u>Company Proposed</u>	<u>Adjustments</u>	<u>NDPSC Staff</u>	<u>References</u>
Federal Tax Rate	21.00000%		21.00000%	
State Tax Rate	4.31000%		4.31000%	
Combined Federal and State	24.40490%		24.40490%	
1-tax rate	75.59510%		75.59510%	
Gross Up Factor	1.32284		1.32284	

(1) Company Excel -Tax Rate and Inflation
Schedule

<u>SUMMARY OF REVENUES</u>		(1)			
		Company		NDPSC Staff	References
		Present	Adjustments		
1	Sales				
2	Residential	\$ 58,026,708	\$ -	\$ 58,026,708	
3	Propane	\$ 174,581	\$ -	\$ 174,581	
4	Total Residential	<u>\$ 58,201,289</u>	<u>\$ -</u>	<u>\$ 58,201,289</u>	
5	Air Force				
6	Firm	\$ 143,249	\$ -	\$ 143,249	
7	Interruptible	\$ 1,426,091	\$ -	\$ 1,426,091	
8	Total Air Force	<u>\$ 1,604,860</u>	<u>\$ -</u>	<u>\$ 1,604,860</u>	
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	<u>\$ 44,071,987</u>	<u>\$ -</u>	<u>\$ 44,071,987</u>	
13	Interruptible				
14	Small Interruptible	\$ 2,532,810	\$ -	\$ 2,532,810	
15	Large Interruptible	\$ -	\$ -	\$ -	
16	Total Interruptible	<u>\$ 2,532,810</u>	<u>\$ -</u>	<u>\$ 2,532,810</u>	
17	Total Sales	<u>\$ 106,410,946</u>	<u>\$ -</u>	<u>\$ 106,410,946</u>	
18	Transportation				
19	Small Interruptible	\$ 870,115	\$ -	\$ 870,115	
20	Large Interruptible	\$ 1,327,781	\$ -	\$ 1,327,781	
21	Total Transportation	<u>\$ 2,197,896</u>	<u>\$ -</u>	<u>\$ 2,197,896</u>	
22	Total Sales and Transportation	<u>\$ 108,608,842</u>	<u>\$ -</u>	<u>\$ 108,608,842</u>	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	<u>\$ 507,095</u>	<u>\$ -</u>	<u>\$ 507,095</u>	
29	Rent from Property	<u>\$ 465,709</u>	<u>\$ (462,280)</u>	<u>\$ 3,429</u>	Response to 6.1 and 2.57
30	Other Operating Revenue				
31	Heskett 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	<u>\$ 3,527,788</u>	<u>\$ (462,280)</u>	<u>\$ 3,065,508</u>	
36	Total Operating Revenue	<u>\$ 112,136,630</u>	<u>\$ (462,280)</u>	<u>\$ 111,674,350</u>	

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

SUMMARY OF O&M EXPENSES

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

(1) Company Statement K page 7

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

(1) Company Statement K page 12 of 37

OTHER GAS SUPPLY

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

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

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

DISTRIBUTION

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

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

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

CUSTOMER ACCOUNTING

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

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

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

**CUSTOMER SERVICE
 AND INFORMATION**

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

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

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

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

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

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

ADMINISTRATIVE AND GENERAL

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

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

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

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

TAXES OTHER THAN INCOME

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

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

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

(1) Company Statement K, p 36

(2) Recommended Rate Base \$ 132,292,041
 Recommended Cost of Debt 2.442%
 Interest Synchronization \$ 3,230,725

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

(1) Company Statement L p 1

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

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

**ACCUMULATED DEFERRED
 INCOME TAXES**

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

(1)

