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**STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

MONTANA-DAKOTA UTILITIES CO.

CASE NO. PU-19-317

APPLICATION FOR DEFERRED ACCOUNTING TREATMENT

DIRECT TESTIMONY OF JOEL F. JEANSON

58 PU-19-307 Filed 04/30/2020 Pages: 32
Exhibit Staff-2 - Prefiled Testimony of Joel Jeanson - redacted
Public Service Commission

56 PU-19-306 Filed 04/30/2020 Pages: 32
Exhibit Staff-2 - Prefiled Testimony of Joel Jeanson - redacted
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59 PU-19-317 Filed 04/30/2020 Pages: 32
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1 **I. Introduction and Qualifications**

2 **Q. Would you please state your name, affiliation, and address?**

3 **A.** My name is Joel F. Jeanson. I am a Principal Consultant at PA Consulting Group
4 (PA). My business address is 55 Cambridge Parkway, Suite 900, Cambridge, MA
5 02142.

6
7 **Q. On whose behalf are you filing this testimony?**

8 **A.** I am filing this testimony on behalf of the Advocacy Staff of the North Dakota Public
9 Service Commission (Commission or NDPSC).

10
11 **Q. Please summarize your qualifications and experience.**

12 **A.** I have worked in the utility industry for the past 40 years, primarily specializing in
13 regulatory finance and accounting issues. I started my professional career in the audit
14 division for a Big Eight accounting firm, working primarily with investor-owned
15 utility clients. After leaving public accounting I went to work for a large Midwest
16 utility in a variety of accounting, planning/budgeting, corporate performance, and
17 auditing roles. Since 2001, I have worked as a consultant to clients in the utility and
18 energy industry, including regulators, utility management, and investors. My
19 academic background includes a B.S. in Business (with distinction) from Indiana
20 University. I am a Certified Public Accountant (inactive). My CV is provided in
21 Exhibit JFJ-1.

22
23 **Q. Have you testified before the North Dakota Public Service Commission
24 previously?**

25 **A.** Yes. I testified on behalf of the Advocacy Staff of the Commission in Northern States
26 Power Company Advance Prudence – Biomass PPAs Application for Deferred
27 Accounting Case Nos. PU-17-322, PU-17-270, and PU-17-271.

28
29 **Q. What is the purpose of your testimony?**

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1 A. The purpose of my testimony is to provide the Commission with an assessment of the
2 Montana-Dakota Utilities Co. (Montana-Dakota or the Company) request for deferred
3 accounting for the retirement of the Lewis & Clark 1, Heskett 1 and Heskett 2 coal-
4 fired power plants.

5 I have reviewed the Company's Application and responses to data requests in order to
6 develop conclusions and recommendations regarding the use of deferred accounting
7 treatment for these costs and whether any conditions should be put on an approval of the
8 request for deferred accounting.

9
10 **Q. Would you please summarize the organization of your testimony?**

11 A. Yes. My testimony is organized as follows:

- 12 • Overview of the Montana-Dakota Request;
- 13 • Relevant North Dakota legislative statutes and administrative code;
- 14 • Criteria I believe to be appropriate given industry standards and practices
15 including North Dakota-specific practices;
- 16 • Assessment of the appropriateness of the amounts requested for deferred
17 accounting treatment; and
- 18 • Conclusions and recommendation regarding the use of deferred accounting
19 for the retirement of the Lewis & Clark 1, Heskett 1 and Heskett 2 coal-fired
20 power plants.

21
22 **Q. Can you provide a summary of your testimony?**

23 A. Yes. My conclusion is that the Company's request for deferred accounting treatment
24 is appropriate in that the benefits associated with the early retirement of the Heskett 1
25 & 2 and Lewis & Clark 1 plants exceed the costs for which deferred accounting
26 treatment has been requested, together with the costs associated Heskett 4. Also, the
27 costs for which deferred accounting treatment is requested satisfy regulatory criteria
28 for such treatment. My conclusion is based upon my review of Montana-Dakota's
29 application and responses to data requests, review of prior Commission orders, and
30 reliance on Mr. Heidell's testimony in Cases PU-19-306 and PU-19-307.

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1 **Q. Are you sponsoring any exhibits to your testimony?**

2 **A. Yes. I am sponsoring the following exhibit:**

- 3 • Exhibit JFJ-1: CV of Joel F. Jeanson

4

5 **II. Overview of Montana-Dakota Request**

6 **Q. Please describe the request for deferred accounting made by Montana-Dakota**
7 **related to the retirement of three coal-fired power plants (Lewis & Clark 1,**
8 **Heskett 1 and Heskett 2) in Docket No. PU-19-317.**

9 **A. In its Application for Authority for Deferred Accounting, Montana-Dakota requests**
10 **authority for deferred accounting that would allow the Company to defer costs related**
11 **to the retirement of the Lewis & Clark 1, Heskett 1 and Heskett 2 coal-fired power**
12 **plants until disposition of its next general electric rate case.**

13 In making this request, the Company represents the following:

- 14 • The cost savings from the Retirement of the Generating Assets will benefit
15 customers in all cases.
- 16 • Montana-Dakota will incur accelerated depreciation, plant decommissioning,
17 and employee-related costs that are unusual and non-recurring and were not
18 contemplated by the Commission when setting rates.
- 19 • These costs are reasonable and prudent for the achievement of the net cost
20 savings contemplated by the 2019 Integrated Resource Plan (IRP) submitted in
21 Case No. PU-19-221.

22 Siting ND Admin. Code § 69-09-05.1-03, the Company represents that the
23 “Commission may authorize deferred accounting and amortization of unusual and
24 non-recurring expenses that were not contemplated at the time current rates were
25 established. By doing so, the Commission allows a utility to designate unusual and
26 infrequent expenses as regulatory assets that will be amortized over future accounting
27 periods.” The Company also indicates the “Commission has allowed deferred

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1 accounting when the amounts are sufficiently large that they could accelerate the
2 timing of a rate case.”

3 **Q. Please describe the costs for which the Company is seeking deferred accounting**
4 **treatment.**

5 **A.** In its Application, the Company references Figure 14 included in Volume IV,
6 Attachment I of the 2019 IRP. The request for deferred accounting treatment refers
7 to the costs in the rows highlighted in yellow below. These costs represent the annual
8 revenue requirement rather than the total costs for which the Company is seeking
9 deferred accounting treatment.

Figure 14 -Estimated Cost to Run Compared to Cost of Retirement and Replacement Power
(000's)

	2023
Lewis & Clark Non-Fuel Revenue Requirement	\$13,959
Heskett Non-Fuel Revenue Requirement	19,561
Subtotal Non-Fuel Revenue Requirement Without Retirements	\$33,520
Lewis & Clark Retire 12/2020 - Revenue Requirement	0 1/
Heskett Retire 12/2021 - Revenue Requirement	0 2/
Employee Retention Package Amortized over 5 years	1,413 3/
Net Book Value of Assets at Time of Retirement Amortized over 15 Years	8,815 4/
Plant Decommissioning Revenue Requirement	1,416 5/
Heskett IV Non-Fuel Revenue Requirement	10,642 6/
Subtotal Retirement & Heskett IV	\$22,286
Change in Non-Fuel Revenue Requirement	(\$11,234)
Fuel & Purchased Power - Without Retirements	\$79,773
Fuel & Purchased Power Redispatch after Retirements	68,076
Capacity Replacement - Retirement	2,867 7/
Change in Fuel/Purchased Power	(68,830)
Net Total Change	(\$20,664)

1/ End of operation 12/31/2020 - End of coal contract 12/31/2020

2/ End of operation 12/31/2021 - End of coal contract 12/31/2021.

3/ Employee retention package costs assumed to be amortized over 5 years from retirement date of each plant.

4/ Assumes a 15 year Amortization of remaining balance, plus a return of 9.13% on unamortized balance.

5/ Assumes 25% decommissioning completed year 1, 75% year 2 and 100% year 3
at a 15 year amortization and a return of 9.13%.

6/ Assumes plant in service on 1/1/2023 plus incremental Heskett 4 non-fuel O&M costs.

7/ Capacity purchase at \$4 per KW month for capacity needs not met by Heskett 4.

10 The total costs for which Montana-Dakota has requested deferred accounting
11 treatment are shown in the following table. These amounts represent North Dakota's
12 share of the total based on North Dakota's share of the Integrated System's twelve-
13 month average peak demand allocation factor. The annual revenue requirement
14 shown in the table above reflects the amortization of these costs over either 5 years
15

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1 (employee retention costs) or 15 years (all others). For the costs amortized over 15
2 years, the annual revenue requirement will decline over time as the returns on the
3 unamortized balances decline. This is also true for the “non-fuel revenue
4 requirements without retirement” shown in first three rows of Figure 14 above.
5

Cost Category	Amount (in \$million)
Accelerated Depreciation	\$54.4
Excess Deferred taxes	(2.9)
Decommissioning Costs	14.1
Employee Retention Costs	4.4
Total	\$70.0

6
7 **III. North Dakota Statutes and Administrative Code**

8 **Q. What guidance is provided by North Dakota statutes and administrative code**
9 **related to deferred accounting?**

10 **A.** There is limited guidance provided by the North Dakota statutes and administrative
11 code related to deferred accounting. Subsection 03 of Chapter 69-09-05.1
12 Accounting Practices indicates that:

13 “The system of accounts used by all North Dakota electric
14 companies subject to rate regulation by the commission must
15 conform to the uniform system of accounts set forth in title
16 18, Code of Federal Regulations, part 101, prescribed by the
17 federal energy regulatory commission.”

18 The specific guidance provided by the FERC Uniform System of Accounts related to
19 deferred accounting is provided in Section IV below.

20 N.D.C.C. Title 49-05 Procedure on Regulation of Public Utilities, Section 49-05-16.
21 “Advance determination of prudence” provides authorization for “an advance

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1 determination of prudence” regarding a resource addition. “Resource addition” is
2 defined as “construction, modification, purchase, or lease on an energy conversion
3 facility, renewable energy facility, demand response system, transmission facility, or a
4 contract to acquire energy, capacity, or demand response for the purpose of providing
5 electric service.” Item 6 further indicates:

6 “The public utility may recover in its rates, and in a timely
7 manner consistent with the public utility’s financial
8 obligations, the amounts the public utility reasonably incurred
9 or obligated on a prudent resource addition, including accrued
10 allowance for funds used during construction, even though the
11 resource may never be fully operational or used by the public
12 utility to serve its customers. The cost amortization period for
13 a discontinued resource addition may not exceed five years
14 from the date commencement of the recovery is approved by
15 the commission. No return on amounts incurred or obligated
16 by the public utility may be authorized for the period after the
17 resource addition is discontinued. The public utility may
18 request an order from the commission for deferred accounting
19 treatment for costs incurred for a discontinued resource
20 addition.”

21 **IV. Industry Standards and Practices**

22 **Q. What industry standards and practices exist related to deferred accounting**
23 **treatment?**

24 **A.** The Federal Energy Regulatory Commission (FERC) Uniform System of Accounts
25 (USoA) as set forth in Title 18, Code of Federal Regulations, Part 101 defines the
26 accounting treatment for regulatory assets (i.e., deferred accounting) in account **182.3**
27 **Other regulatory assets.**

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- 1 A. This account shall include the amounts of regulatory-
2 created assets, not includible in other accounts, resulting
3 from the ratemaking actions regulatory agencies.
4 B. The amounts included in this account are to be established
5 by those charges which would have been included in net
6 income....in the current period under the general
7 requirements of the USoA but for it being probable that
8 such items will be included in a different period(s) for
9 purposes of developing rates that the utility has been
10 authorized to charge for its utility services.

11 Similarly, USoA Definitions state:

- 12 31. *Regulatory Assets and Liabilities* are assets and liabilities
13 that result from rate actions of regulatory agencies. Regulatory
14 assets and liabilities arise from specific revenues, expenses,
15 gains, or losses that would have been included in net income
16 determination in one period under the general requirements of
17 the Uniform System of Accounts but for it being probable:
18 A. that such items will be included in a different period(s) for
19 purposes of developing the rates the utility is authorized to
20 charge for its utility services; or
21 B. in the case of regulatory liabilities, that refunds to
22 customers, not provided for in other accounts, will be
23 required.

24 As shown above, the FERC USoA is not prescriptive; that is, it does not identify those
25 specific transactions which require or are eligible for deferred accounting treatment or
26 even those criteria a regulatory agency should use to determine whether the recovery
27 of costs otherwise accounted for as expenses should be allowed over more than one
28 accounting period. Rather, recording a transaction as a regulatory asset or liability is
29 completely dependent on the rate actions of regulatory agencies.

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1 In "The Process of Ratemaking" published by Public Utilities Reports, Inc., Leonard
2 Saul Goodman defines a deferred cost as "one that has been paid by the company but
3 is postponed for inclusion in rates until a future period." He indicates that "the use of
4 the deferred cost account in a ratemaking context is so common and so fundamental a
5 regulatory tool that no agency is likely to consider it necessary today to study whether
6 as a matter of 'policy' costs should be deferred; however, it will insist that a proper
7 record be made pointing to the need for a specific cost deferral" and that "permission
8 to defer a cost for accounting purposes does not carry with it any promise that the cost
9 will later be allowed in rates, nor if allowed in rates that the unamortized balance will
10 be included in rate base" (that is, eligible for a "return on"). "The deferral is merely a
11 stop-gap measure to preserve the status quo until the company proves that the cost
12 should be allowed," (that is, typically in the context of a rate case). "There is usually
13 a ratemaking implication whose resolution the agency finds it convenient to defer
14 along with the affected costs."

15 Goodman further provides the following insights:

16 When the company with commission approval postpones the
17 collection of a cost from ratepayers. It may be allowed to
18 create a "deferred cost" or a "regulatory asset" on its books
19 for a stated period. It thereby "capitalizes" the cost, and will
20 thereafter amortize the cost through charges to ratepayers with
21 or without inclusion of the unamortized balance in rate base.
22 Amortization imposes costs on ratepayers; rate base
23 exclusion imposes carrying costs on shareholders.

24
25 **Q. Does your experience support the industry practices described above?**

26 **A.** Yes. Based on my experience, the practices described above align with practices I
27 have observed.

28
29 **Q. Based on your experience, are there common criteria or attributes of costs used**
30 **by regulators when authorizing the deferral of costs as regulatory assets?**

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1 A. Yes. Based on my experience, the following criteria are commonly and consistently
2 used by regulators in authorizing cost deferrals and establishing regulatory assets:

- 3 • The costs are significant and extraordinary; that is, they are material relative
4 to the ongoing level of operating expenses and are not currently recoverable
5 through rates.
- 6 • The costs incurred provide value to ratepayers.
- 7 • The costs incurred are necessary and reasonable (or “prudent”).
- 8 • The recovery period over which the costs will be amortized reasonably
9 represents the period over which value is provided.
- 10 • The recovery will not result in over-earning.

11
12 **Q. Do the criteria described above align with criteria used by the Commission in**
13 **similar requests for deferred accounting?**

14 A. Yes. For example, in its June 27, 2018 Order in Case Nos. PU-17-270, PU-17-271 and
15 PU-17-322, the Commission granted deferred accounting treatment for the costs of the
16 proposed Benson transactions and for the costs of terminating the Laurentian and Pine
17 Bend power purchase agreements subject to the terms and conditions of the Order and
18 the Settlement Agreement. The parties to the Settlement Agreement agreed that Xcel
19 Energy met the standard for deferred accounting for the three transactions, without
20 explicitly defining those standards; consistent with the Commission’s settlement
21 guidelines, the Agreement did not set policy or overturn precedent. In my testimony
22 in those cases, I concluded that the criteria used by Xcel Energy was aligned with that
23 described above.

24 In addition, in its order allowing cost deferral in Case No. PU-10-589 dated July 27,
25 2011, in which Montana-Dakota Utilities (MDU) requested approval for the deferral
26 and subsequent recovery of manufactured gas plant (MGP) remediation costs, the
27 Commission describes the following criteria used in approving the proposed
28 regulatory asset:

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1 “Any future request for cost deferral must be made immediately
2 after the costs have been incurred and then only when current
3 earnings levels are not sufficient to cover these kinds of
4 extraordinary and unusual costs.”

5 The case summary section of the one-page order provides further insight into likely
6 criteria considered by the Commission as follows:

- 7 • The company proposed collecting the cost over a five-year period beginning
8 January 1, 2010 with no interest or rate base treatment.
- 9 • The MGP site was only used to serve Bismarck customers prior to the
10 availability of transmission pipelines used today.

11
12 **V. Assessment of the Reasonableness of the Amounts**
13 **Requested to be Deferred**
14

15 **Q. Did you confirm that the amount of excess depreciation for which deferred**
16 **accounting treatment has been requested is reasonable?**

17 **A.** Yes. As shown in the following table, I confirmed the reasonableness of the
18 Company’s calculation of North Dakota’s share of excess depreciation for which the
19 Company has requested deferred accounting treatment based on amounts provided in
20 the Company’s application, responses to data requests, and approved depreciation
21 rates based on the Company’s most recent depreciation study. North Dakota’s share
22 is based on the Integrated System’s twelve-month average peak demand allocation
23 factor.

Amount (\$M) (ND Share)	Heskett 1 & 2	Lewis & Clark 1	Total
Projected Retirement Date	March 2022	March 2021	
Plant in Service	\$82	\$55	
Accumulated Depreciation Reserve Based on Authorized Rates	\$58	\$24	

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Net Plant Subject to Accelerated Depreciation	\$24	\$30	\$54
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1
2 As with all amounts included in the application for deferred accounting treatment,
3 these accelerated depreciation amounts are estimates and will be subject to true-up in
4 the next electric general rate case. For example, the application reflects North
5 Dakota's share of accelerated depreciation of \$54.4M and decommissioning costs of
6 \$14.2M, or \$68.6M combined. In the Company's response to data request 1-3, North
7 Dakota's share of accelerated depreciation was shown as \$66.9M rather than \$54.4M
8 The Company's response to data request 3-1 clarified that the \$66.9M included both
9 accelerated depreciation and decommissioning costs and that the difference between
10 the \$68.6M and \$66.9M attributable to accelerated depreciation is due to the data
11 response including more up-to-date information related to projections of both plant
12 additions and retirements during the interim period.

13
14 **Q. Please explain why the depreciation rates approved in the Company's most**
15 **recent general electric rate case (Case No. PU-16-666) do not result in net book**
16 **values closer to zero at the plants' projected retirement dates as shown in its**
17 **application.**

18 A. There are two primary reasons. First, the depreciation rates developed in the
19 Company's 2014 depreciation study (i.e., the most recent study) were based on
20 probable retirement dates of 2028 for Heskett 1&2 and 2025 for Lewis & Clark.
21 Second, subsequent to the 2014 depreciation study, the Company has made large
22 environmental upgrades to Lewis & Clark 1 and Heskett 1 and 2 which were then
23 depreciated at the same rates as if the additions were in service in 2014.

24
25 **Q. Is the inclusion of excess deferred income taxes reasonable?**

26 A. Yes. The inclusion of a credit related to excess deferred income taxes associated with
27 the reduction in federal income tax rates resulting from the Tax Cuts and Jobs Act of
28 2017 is appropriate. Ratepayers should receive the full benefit of the excess taxes paid

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1 regardless of whether the plants remain in service or are early retired. The exact
2 amount of the credit is subject to confirmation in connection with the Company's next
3 general electric rate case.

4
5 **Q. Is the inclusion of plant decommissioning costs reasonable?**

6 A. Yes, the recovery of plant decommissioning costs is a common industry practice. And
7 the inclusion of decommissioning cost estimates based on a study performed by an
8 external engineering firm such as Burns & McDonnell is reasonable.

9
10 **Q. Is the amount of decommissioning costs for which deferred accounting treatment**
11 **has been requested reasonable?**

12 A. Yes. The Burns & McDonnell study identified \$20.7M (\$12.0M for Lewis & Clark 1
13 and \$8.7M for Heskett 1 & 2) in total Company projected plant decommissioning
14 costs associated with the plants to be retired. Of the \$12.0M for Lewis & Clark,
15 \$5.0M was Continuity of Operations based on a Company estimate, resulting in net
16 decommissioning costs for Lewis & Clark 1 of \$7.0M. In addition, the Company
17 identified \$4.3M in costs related to the Scrubber Pond Decommissioning. As adjusted,
18 Lewis & Clark 1 decommissioning costs total \$11.3M. While the Company has
19 indicated that the Continuity of Operations component of decommissioning costs was
20 not separately identified by Burns & McDonnell, my review of the Burns &
21 McDonnell study identified \$3.6M labeled as "MDU Lewis & Clark Cost Estimate
22 Re-Allocation." These costs, which appear to be "Continuity of Operations" related,
23 are \$1.4M less than the Company estimates.

24 The \$11.3M for Lewis & Clark 1 and the \$8.7M for Heskett 1 & 2 bring the Company
25 total for decommissioning costs for the three plants to \$20.0M, of which North
26 Dakota's share is \$14.2M, comparable to the \$14.1M as presented in the Company's
27 Application.

28 In Case No. PU-16-666, the Commission authorized the recovery of decommissioning
29 costs, for all generating stations, of \$0.5M per year in retail rates. Since that time, the

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1 Company has incurred \$1.8M in decommissioning costs associated with the Lewis &
2 Clark pond cap project and \$0.4M related to the retirement of the Williston turbine, a
3 total \$2.2M. The amounts currently recovered through rates (\$500k/year) will clearly
4 not be sufficient to recover the costs incurred to date, the projected decommissioning
5 costs for plants other than Lewis & Clark 1 and Heskett 1 & 2, and the projected
6 decommissioning costs associated with the retirement of Lewis & Clark 1 and Heskett
7 1 & 2 over the proposed 15 year amortization period. Consequently, it is my opinion
8 the amount of the decommissioning costs for which the Company has requested
9 deferred accounting treatment is reasonable and the rationale for deferral satisfies the
10 criteria for deferral (that is, are in excess of costs currently recovered through rates).
11 Ultimately, the amount of decommissioning costs recovered through rates, both
12 through the amortization of amounts deferred and the accrual for future
13 decommissioning, should be reassessed in the Company's next electric general rate
14 case.

15 **Q. Please provide a breakdown of the Employee Retention costs included in the**
16 **request for deferred accounting treatment.**

17 **A.** North Dakota's share of employee retention costs as identified in the Application is
18 \$4.4M. This represents approximately 70.93% of the total of \$6.1M.

19 The following tables presents several perspectives on these costs as provided by the
20 Company in its response to DR 2.1 Requested Update to Response No. 1-1 DAO
21 CONFIDENTIAL and is based on total costs, not North Dakota's share. The
22 information below reflects a total of <*** BEGIN CONFIDENTIAL DATA >

23 ■ <END CONFIDENTIAL DATA ***>

24 employees whereas the response to DR 1-1 reflects an employee count of 75 at July
25 31, 2019.

26 Approximately 68% of the projected retirement costs are for severance and full-time
27 employee retention costs including 7%, or \$280k (ND share), for employees expected
28 to remain at the plants, and 5%, or \$235k (ND share), for employees remaining with

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1 the Company but at locations other than the plants. Retention payments for temporary
2 employees are projected to be about \$265k (ND share).

3 Retraining costs represent 3% of the total including a small amount for employees
4 remaining at the plants and relocation expenses about 5% of the total.

5 <*** BEGIN CONFIDENTIAL DATA>

Number of Employees - Total Both Plants

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Costs by Category and Retention Status - Total Both Plants

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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1 projected expenses is weighted towards employees to be retired / terminated upon
2 plant retirement which is expected.

3 There are several expenses for which it is not obvious that the expenses are
4 incremental to costs recovered through rates (training/tuition) or needed to ensure the
5 proper operation of the plant (payments to temporary employees); these costs are
6 relatively insignificant in total and on their own would not pass the materiality test for
7 deferred accounting treatment.

8 The larger issue is the extent to which the amounts requested, together with employee
9 compensation and benefit costs for the plant employees, will exceed amounts
10 currently recovered through retail rates. My observation is primarily due to
11 differences among the number of plant employees (80) identified in response to DR
12 1-1 a) and b), the number of plant employees (75) identified in response to DR 1-1 c),
13 and the number of plant employees < ** BEGIN CONFIDENTIAL DATA > ██████████
14 < END CONFIDENTIAL DATA ** > identified in confidential response to DR 2-1.

15 These differences in employee counts suggest some uncertainty regarding whether the
16 amounts requested will in fact be fully incremental to the amounts currently
17 recovered through retail rates on a plant employee total cost basis.

18 In the Company's next electric general rate case, I believe the Commission should
19 require the Company to provide a complete reconciliation of the sum of a) actual
20 compensation and benefit costs for employees at Lewis & Clark 1 and Heskett 1 & 2
21 plus b) actual employee-related costs from the date the employee-related costs
22 commence to those costs recovered through retail rates through the end of the test
23 year. To the extent the sum of a) and b) above is less than the sum of employee
24 compensation and benefit costs recovered through retail rates during that period plus
25 the projected employee-related costs identified in the Company's Application, I
26 believe the Commission should consider authorizing the recovery through deferred
27 accounting of the lesser of these two amounts (i.e., the full amount of actual
28 employee-related costs incurred or the net amount calculated). In my opinion, the
29 amount authorized for recovery should not exceed North Dakota's share of the

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1 employee-related costs authorized in the Company's application absent an updated
2 cost-benefit analysis.

3
4 **Q. For each of the categories of costs described above, is the percentage of total costs
5 apportioned to North Dakota consistent with prior regulatory treatment?**

6 **A.** Yes. I validated the allocation to North Dakota based on the Integrated System's
7 twelve-month average peak demand allocation by state, provided in the 2019
8 Integrated Resource Plan. Although small difference exists, depending on what year is
9 used and whether energy efficiency savings is included or not in the calculation, the
10 allocation calculated using 2019 twelve-month average peak demand net of energy
11 efficiency programs closely aligns with the allocations used in Montana-Dakota's
12 request for deferred accounting treatment of North Dakota's share representing
13 \$70.0M in costs.

14
15 **Q. Is concluding that the costs for which the Company are requesting deferred
16 accounting treatment, subject to the limitations described above, are reasonable a
17 sufficient basis for authorizing deferred accounting treatment?**

18 **A.** Not completely. The Company must still demonstrate that the benefits achieved from
19 the early retirement of Lewis & Clark 1 and Heskett 1 & 2 exceed these costs together
20 with incremental costs associated with Heskett 4. In particular, that the difference
21 between the cost savings associated with the retired plants exceeds the incremental
22 costs associated with the replacement costs. See the testimony of Advocacy Staff
23 Witness Jim Heidell for an assessment of the cost / benefit justification in Case Nos.
24 PU-19-306 and PU-19-307.

25
26 **VI. Conclusions and Recommendations Related to the**
27 **Montana-Dakota Request for Deferred Accounting**
28 **Treatment**
29

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1 **Q. Does Montana-Dakota's request for deferred accounting treatment satisfy the**
2 **criteria described above?**

3 **A. Yes, with some exceptions. Based on the description of the proposed transaction**
4 **contained in the application, the five criteria are generally satisfied:**

- 5 • The costs are significant and extraordinary; that is, they are material relative
6 to the ongoing level of operating expenses and are not currently recoverable
7 through rates.

8 With that being said, depreciation, excess deferred income taxes, and
9 decommissioning costs are all currently recovered (or refunded, in the case of
10 EDIT) through rates. The issue in this case is primarily one of timing and
11 recovery mechanism. For example, decommissioning costs are currently
12 recovered through rates in the amount of \$500,000 per year, an amount
13 significantly less than the decommissioning costs expected upon plant
14 retirement. For the retirement of utility plant, utility accounting typically
15 assumes the plant was retired at the end of its expected useful life and is fully
16 depreciated at the time of retirement with no gain or loss upon retirement
17 recorded. To the extent this is not the case, depreciation rates will be adjusted
18 in connection with the next depreciation study. In this case, given the early
19 retirement of the plant and the resulting significant undepreciated balance at
20 the expected date of retirement, it is reasonable to consider this transaction as
21 extraordinary rather than business as usual.

- 22 • The costs incurred provide value to ratepayers. Incremental benefits exceed
23 incremental costs (i.e., the employee retention related costs).
- 24 • The costs incurred are necessary and reasonable (or "prudent"). Based on our
25 experience, some level of expenditures will reasonably be incurred to ensure
26 individuals remain in their current positions knowing those jobs will end prior
27 to retirement of the individual employees. Determining the level of
28 expenditures required to motivate behavior is a matter of art rather than
29 science. However, in my experience, it is common for employee levels by job
30 classification to routinely increase or decrease as work requirements change,

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1 technologies change, or organization structures change. A certain amount of
2 employee retention or retraining always results from this churn and is simply a
3 cost of doing business, often offset by associated savings.

- 4 • The recovery period over which the costs will be amortized reasonably
5 represents the period over which value is provided.
- 6 • The recovery will not result in over-earning. This cannot be determined at this
7 time and will be subject to consideration in the context of the Company's next
8 general electric rate case.

9
10 **Q. Does approval of deferred accounting treatment for these transactions relieve**
11 **the Company of any further burden of proof associated with the establishment**
12 **of the regulatory asset?**

13 A. No. In my opinion, the Company remains obligated to demonstrate that the actual
14 costs incurred are reasonable and necessary, as well as significant and extraordinary.
15 For example, the estimates provided in the application include assumptions regarding
16 plant additions and retirements all of which may vary from actuals. In addition, as
17 described above, actual employee related costs may differ from the amounts
18 estimated and may also differ from amounts currently recovered in rates. That is, the
19 number of and related cost of employees required to operate the three plants to be
20 retired may be less than is currently included in revenue requirements. If significant
21 attrition occurs prior to retirement of those plants, the related reduction in costs
22 should be net against any incremental costs associated with retention and re-training.

23
24 **Q. Should excess earnings be considered in determining the amount of costs**
25 **authorized for deferred accounting treatment?**

26 A. Yes. To the extent the Company's actual earnings beginning in the period in which
27 the Company starts to incur and defer either decommissioning costs associated with
28 the plants to be retired or employee-related costs as described above through the end
29 of the test year in the Company's next electric general rate case result in a return on
30 equity in excess of that authorized in the Company's last electric general rate case,

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1 any excess earnings should be used to offset the amount of employee-related costs
2 and / or decommissioning costs subject to deferred accounting treatment. I do not
3 believe, however, that the recovery of accelerated depreciation costs should be
4 subject to a potential offset.

5 Since 2014, based on an analysis completed by Commission Staff, the Company has
6 consistently earned a rate of return on equity below the authorized rate. Therefore the
7 likelihood that the amounts requested for deferral will be reduced as a result of an
8 excess earnings offset is minimal.

9
10 **Q. Do you agree with the Company's representation that the costs for which it seeks**
11 **recovery will be more than offset by the O&M expenses and fuel savings, net of**
12 **the incremental costs associated with Heskett 4, that occur upon retirement of**
13 **the facilities?**

14 **A.** Yes. As noted in the testimony of Advocacy Staff Witness Heidell in Case Nos.
15 PU-19-306 and PU-19-307, net benefits are expected to be sufficient to offset the
16 costs for which the Company is seeking deferred accounting treatment.

17
18 **Q. Do you agree with the Company's assertion that Generally Accepted Accounting**
19 **Principles (GAAP) require the Company to accelerate depreciation in order to**
20 **fully depreciate the asset to the expected early-retirement date for financial**
21 **reporting purposes?**

22 **A.** Yes. Accounting Standards Codification (ASC) 360-10-35, subsections 46 through
23 48 provides guidance related to accounting for impairment of a long-lived asset when
24 it ceases to be used. This guidance requires that depreciation estimates be revised to
25 reflect the use of the asset over its shortened useful life.

26
27 **Q. Does the Company propose an amortization period for the costs for which it is**
28 **requesting deferred accounting treatment?**

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1 A. Yes. While not directly requesting approval of specific rate base treatment and
2 amortization periods in its application, the Company does refer to the 2019 IRP which
3 includes the following assumptions:

- 4 • Amortization of accelerated depreciation costs and decommissioning costs
5 over 15 years and the Commission authorized rate of return; and
- 6 • Amortization of employee related costs over a 5-year period.

7
8 **Q. Do you agree with the Company proposed amortization periods and rate base**
9 **treatment?**

10 A. Yes. The proposed 15-year amortization period for accelerated depreciation exceeds
11 the expected useful life of the plants had they remained in service based on the 2014
12 Depreciation Study filed in Case PU-16-666. In that study, the probable retirement
13 date for the Heskett Generating Station was 2028 and the probable retirement date for
14 Lewis & Clark Generating Station was 2025. By extending the amortization period
15 beyond the probable retirement dates used to establish depreciation rates, the new
16 revenue requirement during those time periods (that is, through 2028 for Heskett and
17 through 2025 for Lewis & Clark) will be less than revenue requirements based on the
18 proposed amortization periods. Given the incremental revenue requirements
19 associated with Heskett 4, I believe that extending the amortization of accelerated
20 depreciation costs and decommissioning costs over 15 years is reasonable. In addition,
21 authorizing a return on the unamortized balance is reasonable as it relates to utility
22 plant or related expenditures.

23 I also agree the shorter 5-year amortization period for employee related costs is
24 reasonable and the unamortized balances should not earn a return.

25
26 **Q. Would the recovery of these costs in this Case be precedent setting for future**
27 **transactions?**

28 A. No. Based on my experience, utility regulatory commissions have substantial leeway
29 regarding the use of deferred accounting mechanisms, including whether they view
30 the circumstances in specific instances to be sufficiently unique to consider them to

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1 be non-precedent setting. In these cases, the Commission's order typically includes a
2 statement to that affect.

3
4 **Q. Do you recommend that the Commission authorize deferred accounting for the**
5 **retirement of the Lewis & Clark 1, Heskett 1 and Heskett 2 coal-fired power**
6 **plants?**

7 **A.** Yes. Consistent with Mr. Heidell's testimony in Case Nos. PU-19-306 and PU-19-307,
8 and absent other considerations, I recommend that all identified costs as proposed by
9 Montana-Dakota be authorized for deferred accounting treatment.

10 This recommendation does not preclude the Commission from subsequent analysis of
11 the reasonableness of the expected savings and costs incurred in connection with
12 Montana-Dakota's next general electric rate case. In addition, the Commission
13 should confirm that all decommissioning and employee retention-related costs
14 deferred represent actual expenditures and that all costs including accelerated
15 depreciation and excess deferred income taxes represent amounts in excess of
16 amounts recovered through rates.

17 Finally, to the extent that actual employee-related costs for the employees of the three
18 plants are less than costs currently recovered through rates as a result of attrition, that
19 difference should be net against the incremental retention-related costs incurred in
20 determining the amounts ultimately subject to recovery through deferred accounting
21 mechanisms.

22
23 **Q. Should the Commission consider mechanisms other than the recovery through**
24 **base rates for amounts amortized associated with the costs for which deferred**
25 **accounting treatment is authorized?**

26 **A.** Yes. In my opinion, the Commission should consider the use of the generation rider
27 as the mechanism for the recovery of decommissioning costs. These costs will be
28 incurred over a number of years and it is reasonable to authorize recovery through a
29 rider rather than deferring recovery in connection with a general rate case assuming

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1 that the generation rider filing provides an opportunity to scrutinize the costs subject
2 to recovery prior to authorization.

3
4 **Q. Does this conclude your pre-filed testimony?**

5 **A. Yes.**



Joel Jeanson

Principal Consultant



Joel has extensive experience in utility finance and accounting, utility ratemaking, financial and operational auditing, performance improvement, budgeting and management reporting. During his business career, he directed the accounting, budgeting, corporate performance and auditing departments at a major investor-owned utility. He began his career with a Big Eight public accounting firm. While in consulting, Joel has performed numerous independent assessments of utility performance on behalf of both utility management and regulators, and has completed a number of technical accounting studies. He has testified before several utility regulatory commissions.

Primary expertise	Related experience	Qualifications	Client list
<ul style="list-style-type: none"> • Regulatory accounting • Utility ratemaking • Corporate performance management • Performance improvement • Management audits 	<ul style="list-style-type: none"> • Utility management • Independent audit . 	<ul style="list-style-type: none"> • CPA (inactive) • Bachelor of Science in Business (Accounting Major) 	<ul style="list-style-type: none"> • Vermont DPS • Liberty Utilities • NYS DPS • National Grid • ND PSC • Public Service New Mexico • LIPA

Primary expertise

Regulatory accounting – helping clients improve cost allocation practices to mitigate regulatory risks; completing specialized cost studies to support regulatory accounting and compliance activities

Utility ratemaking – helping clients develop and support revenue requirements; performing special studies of technical accounting issues

Corporate performance management – assisting clients improve performance by improving processes whereby strategic plans are aligned with business unit, functional and individual performance including performance measurement and management reporting processes

Performance Improvement – helping clients improve business processes through benchmarking and focus on value-adding activities

Management Audits – performing compliance, efficiency, and effectiveness audits of utilities on behalf of utility regulatory agencies and management, and assisting utility clients prepare for upcoming management audits

Key client achievements

North Dakota PSC - Testified on behalf of the Advocacy Staff of the Commission in Northern States Power Company Advance Prudence – Biomass PPAs Application for Deferred Accounting Case Nos. PU-17-322, PU-17-270, and PU-17-271.

New York State Department of Public Service / New York American Water – Project manager for independent monitor activities in connection with billing and property tax issues. The Billing study was completed in 2019 with our expert report filed with the NYS PSC. The property tax work remains underway.

National Grid USA - Project manager for several technical accounting studies including 1) an engagement in which PA developed new accounting and cost allocation practices for the Service Company in connection with the client's implementation of SAP and provided regulatory support associated with new practices; 2) A&G capitalization study; and 3) cost of removal study.

Liberty Utilities – Technical accounting services related to the Company's updated indirect overhead capitalization study. PA reports filed in connection with several rate proceedings.

Frontier Communications – Technical advisor in connection with the validation of the success of Frontier's systems replication actions required for the approval of the sale of Frontier's operations in the Northwest states of



Montana (MT), Oregon (OR), and Washington (WA). Specifically, prior to Frontier going into production mode of the replicated systems, a third-party review must confirm that any severity level 1 failures (defined as full-service denials) that occurred during pre-production functionality tests on the customer-affecting systems that serve retail telecommunications customers have been fully resolved.

NYSDPS/ NYSERDA – Lead consultant in connection with a confidential study.

Financial and Strategic Investors – Provided due diligence services related to technical utility accounting issues, financial projections and regulatory assessments for several independent investors considering substantial investments in or acquisitions of utility assets and operations.

City of Baltimore DPW – Lead consultant in connection with an independent review of the City's water and wastewater treatment plants.

Hawaii Gas - Lead consultant responsible for assessing technical accounting issues including cost allocations and clearing account processes in connection with the Company's upcoming rate case.

Vermont DPS – Lead consultant responsible providing an assessment of the financial capabilities of the combined entity in connection with a telecommunications industry merger and acquisition. Provided expert testimony.

LIPA – Project manager / lead consultant on two independent assessments of PSEG-LI's performance related to the Operating Service Agreement. Project manager for subsequent engagement assessing the performance benchmarks and metrics used as part of the incentive framework for the independent operator of the LIPA electric T&D system on Long Island.

Consolidated Edison – Led the development of a comprehensive cost allocation manual in response to New York PSC management audit finding.

SUEZ Water – Project manager for the independent assessment of the Company's cost allocation practices. This review was requested by the New York Public Service Commission. The PA Report was provided to the NY PSC.

PNM Resources - Project manager responsible for completing a series of A&G capitalization studies as well as A&G studies required by the operating agreement for a large, jointly-owned power plant. Required developing an understanding of the Company's accounting system code block and cost charging / allocation practices.

FairPoint Communications – Provided audit preparation services in connection with a service quality audit required by the New Hampshire PUC.

Confidential Client – Lead consultant assessing the regulatory environment and potential regulatory risks in connection with the review of the Company's long-term financial forecast. This work was performed in connection with the potential sale of the Company as part of a bankruptcy proceeding.

Frontier Corporation – Lead consultant responsible for assessing the robustness of the financial forecast and reasonableness of assumptions used to project financial results in connection with a telecommunication industry acquisition valued at \$8 billion

Hawaiian Electric – Directed the development of a long-term financial forecast model. This model was initially used to identify rate impacts by customer class associated with the proposed long-term power supply implementation plan.

PSE&G - Provided support to the Company in preparing for an upcoming management audit. This included performing a diagnostic assessment of potential audit risks and employee training. Lead consultant for the review of cost allocations and related controls to ensure the utility was not subsidizing non-regulated operations for a large, east coast gas & electric utility in advance of a state regulatory commission-mandated management audit.

HECO – Corporate accounting performance improvement initiative and benchmarking; completed specialized regulatory accounting studies; performed financial modeling to support business design changes.

Washington Gas – Provided assistance in identifying potential merger synergies for support services functions.

EPCOR – Completed special study filed with the Alberta regulatory commission related to cost allocation practices and shared services.

LADWP – Developed cost management processes designed to support the Department's new tariff and regulatory framework. Directed the completion of water system revenue requirements, cost of service and rate design studies.

FirstEnergy-Pennsylvania – Assessed the effectiveness of the corporate management process and suggested changes to the process to better ensure the transparency of the process and linkages to operational plans and budgets.



NiSource - Provided a framework for assessing the value of corporate and shared services to the operating companies in connection with a NIPSCO rate case. Included a review and assessment of the Company's cost allocation practices.

Vectren - Performed a detailed assessment of cost charging and allocation practices to the individual affiliate operating companies post-merger and acquisition of the DPL gas properties. Assessed the effectiveness of the corporate management process and suggested changes to the process to better ensure the transparency of the process and linkages to operational plans and budgets.

New Jersey American Water - Provided assistance by performing a diagnostic assessment of utility performance in connection with an upcoming management audit and rate case.

City of Baltimore DPW - Lead consultant responsible for benchmarking water and wastewater treatment plant performance. Also lead development of performance / financial management-related recommendation.

Anaheim Public Utilities PUC - Project manager responsible for completing a comprehensive review of water and power meter reading and billing operations and controls.

City of Kansas City Water Department - Lead consultant on a comprehensive review of the water utility's finance and accounting function.

Arizona Corporation Commission - Project manager and lead consultant for the review of the meter reading, billing and usage estimation practices of Arizona American Water Company. Testified before the ACC related to the work performed.

The Metropolitan District (MDC) - Lead consultant for the restructuring of the financial organization of the MDC, a municipal water and sewer utility headquartered in Hartford, CT. Also, lead consultant for the review of financial, human resources, information technology and customer service in connection with a comprehensive management review of the District.

Washington State Auditor's Office - Project manager for the performance audit of the three mid-Columbia Public Utility Districts. This performance audit was performed under Washing Legislative Initiative 900. The project team identified numerous opportunities for cost savings including the increased use of shared support services

Unitil Corporation - Reviewed cost allocation, management and control, and customer service processes for an east coast gas and electric utility in advance of a state regulatory commission-mandated management audit

Anaheim Public Utilities - Project manager for a meter reading and billing process improvement initiative, controls assessment, and billing integrity audit for a large, west coast municipal electric and water utility

City of LA - Water System project manager for two revenue requirements studies of the Los Angeles Department of Water and Power

CA PUC - Lead Consultant for the program evaluation of SBX1 5 energy efficiency and low-income assistance funds performed for the CPUC. Audited SDG&E and Southern California Gas's program and administrative costs for compliance with CPUC and Legislative requirements.

South Jersey Industries - Lead consultant for the review of cost allocations in preparation for an upcoming management audit. Provided a comprehensive re-write of the Company's cost allocation manual.

Direct Utility Industry Experience

- Head of Internal Audit - responsible for developing the internal audit plan, directing the completion of the planned work, and reporting results to the Audit Committee and senior management. Activities included compliance, operational and financial audits.
 - Financial lead in merger integration - responsible for developing an overall assessment of financial impact of the merger as well as the identification of staffing levels, structure, systems and processes, and cost savings opportunities for the company's financial organization.
 - Member of the management team - responsible for the implementation of shared services including establishing a separate shared services organization. Developed cost assignment and allocation processes for shared services.
 - Project director for activity-based management - initiative focused on internal products and services. ABM used to assess performance against other service providers, measure performance, and improve performance.
 - Directed the corporate business planning and budgeting process - responsible for integrating the strategic and operational planning processes so that departmental plans, capital and O&M budgets and performance measures
-



would be focused on both continuous improvement and the achievement of corporate financial and non-financial objectives.

- Led customer service business process – improvement initiative that assessed performance and made recommendations for improvement of all customer service processes, leading to improved customer service and reduced costs. Facilitated the development of customer service standards and measurement processes.
- Key member of project team – that completed a study to identify the services, and levels of service, that customers are willing to pay for. This study resulted in significant changes in how the company delivered services to its customers.

Testimony Experience

North Dakota PSC - Testified on behalf of the Advocacy Staff of the Commission in Northern States Power Company Advance Prudence – Biomass PPAs Application for Deferred Accounting Case Nos. PU-17-322, PU-17-270, and PU-17-271.

SUEZ Water NA – Prepared expert report related to the cost allocation practices and cost of corporate and shared services of SUEZ Water NA. This report was filed by the Company with the New York PSC in connection with New York operating company's general rate case.

National Grid US – Worked with the Company to develop a new cost allocation manual (and associated cost allocation practices). Expert report prepared related to the work performed was filed by the Company in its Niagara-Mohawk general rate case.

Vermont DPS – Testified in connection with the proposed purchase of Verizon's northern New England properties by FairPoint Communications. Subsequently testified in connection with the proposed purchase of the assets of FairPoint Communications by Consolidated Communications.

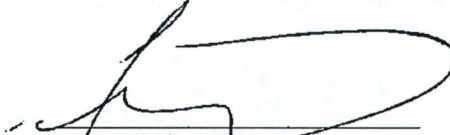
Arizona Corporation Commission – Prepared expert report and testified on behalf of the Arizona Corporation Commission's Utilities Division in connection with the meter reading and billing practices of Arizona Public Service

Arizona Corporation Commission – Prepared expert report and testified on behalf of the Arizona Corporation Commission's Utilities Division in connection with the meter reading and billing practices of Arizona American Water Company

Tami Aberle
Montana-Dakota Utilities Co.
400 North 4th Street
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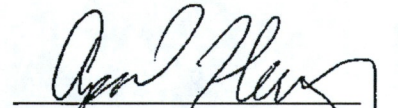
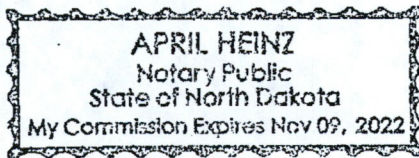
ALJ Timothy J. Dawson
Administrative Law Judge
2911 North 14th Street, Suite 303
Bismarck, ND 58503

and depositing the same, with postage prepaid, in the United States mail at Bismarck,
North Dakota.



Anna Heinen

Subscribed and sworn before me this 20th day of February, 2020.



Notary Public
Burleigh County, North Dakota