



MONTANA-DAKOTA UTILITIES CO.

Before the North Dakota Public Service Commission

Case Nos. PU-19-\_\_\_ and PU-19-\_\_\_

Direct Testimony  
of  
Travis R. Jacobson

1 **Q. Please state your name and business address.**

2 A. My name is Travis R. Jacobson and my business address is 400  
3 North Fourth Street, Bismarck, North Dakota 58501.

4 **Q. What is your position with Montana-Dakota Utilities Co.?**

5 A. I am the Regulatory Analysis Manager for Montana-Dakota Utilities  
6 Co. (Montana-Dakota or Company).

7 **Q. Would you please describe your duties as Regulatory Analysis  
8 Manager?**

9 A. I am responsible for the preparation of cost of service studies, fuel  
10 cost adjustments, purchased gas cost adjustments, and gas tracking  
11 adjustments in each of the jurisdictions in which Montana-Dakota  
12 operates.

13 **Q. Would you please describe your education and professional  
14 background?**

40 PU-19-307 Filed 04/27/2020 Pages: 9  
Proposed hearing Exhibit MDU-6  
Montana-Dakota Utilities Co.

41 PU-19-317 Filed 04/27/2020 Pages: 9  
Proposed hearing Exhibit MDU-6  
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38 PU-19-306 Filed 04/27/2020 Pages: 9  
Proposed hearing Exhibit MDU-6  
Montana-Dakota Utilities Co.

1 A. I graduated from Minot State University with a Bachelor of Science  
2 degree in Accounting and I am a Certified Public Accountant (CPA). I  
3 started my career with Montana-Dakota in 1999 as a financial analyst in  
4 the Financial Reporting Department and during my tenure with the  
5 Company have held positions of increasing responsibility, including  
6 Supervisor, Financial Reporting and Planning and Manager, Financial  
7 Reporting and Planning before attaining my current position.

8 **Q. Have you testified in other proceedings before regulatory bodies?**

9 A. Yes. I have previously presented testimony before this  
10 Commission, the Public Service Commissions of Montana and Wyoming  
11 and the Public Utilities Commissions of Minnesota and South Dakota.

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. The purpose of my testimony is to provide information supporting  
14 the revenue requirement analysis presented in Attachment I of the  
15 Integrated Resource Plan (IRP).

16 **Q. What exhibit are you sponsoring?**

17 A. I am sponsoring Exhibit No. \_\_\_(TRJ-1), the revenue requirement  
18 analysis described above.

19 **Q. Was this exhibit prepared by you or under your direct supervision?**

20 A. Yes, it was.

1 **Q. Why was the revenue requirement analysis performed?**

2 A. As discussed in the testimony of Mr. Darcy Neigum, Montana-  
3 Dakota identified the Heskett and Lewis & Clark coal units for retirement  
4 and selected the Heskett 4 combustion turbine during the IRP process.  
5 While the modeling indicated these decisions were the most economic  
6 choices over the modeling period, the annual revenue requirement  
7 associated with the retirements and replacement were not known.

8 Typically, a revenue requirement is performed during a general rate  
9 case; however, a general rate case is all inclusive and considers all  
10 revenue, expense and rate base components so the impact of any one  
11 activity is not identified.

12 In this Docket, the Company has prepared a revenue requirement  
13 to specifically identify the projected impact of the decision to retire and  
14 replace these units at the customer level.

15 **Q. Please provide an overview of the revenue requirement analysis?**

16 A. Figure 14, shown on page 17 of Attachment I in the 2019 IRP,  
17 provides a comparison of the revenue requirement to maintain continued  
18 operations versus the revenue impact related to the retirement of Heskett  
19 Units 1 & 2 and the Lewis & Clark 1 coal fired generating facilities along  
20 with the addition of the planned Heskett 4 combustion turbine. This

1 analysis was performed on an integrated electric system basis and shows  
2 a net benefit to customers of \$20.1 million in 2023.

3 The Company prepared an analysis in several steps. The first step  
4 was to determine the ongoing costs to continue current operations of  
5 Heskett and Lewis & Clark. Next, an analysis of the deferred costs and  
6 the revenue requirement of the replacement was prepared to show  
7 ongoing costs once the units are retired and the new unit is in service.  
8 Finally, a comparison of the fuel and purchased power costs was prepared  
9 to determine the net cost to customers.

10 **Q. Please describe each step in detail.**

11 A. As noted above, there were three sets of analyses prepared as  
12 follows:

13 Ongoing costs to continue current operations – Montana-Dakota analyzed  
14 its operations and maintenance expenses with twelve months ended  
15 December 2018 for a base period. Costs associated with Heskett 3 and  
16 the RICE Units located at the Lewis & Clark Station were excluded from  
17 the analysis as those costs will continue upon retirement of the coal units.  
18 The cost of labor, the largest operating cost, was increased by 3.0 percent  
19 annually. Premium time was held constant throughout the projected  
20 period. All other costs were reviewed for abnormal expenses and were

1           escalated at 2.6 percent. Reagents and coal severance taxes were  
2           adjusted to reflect projected generation levels.

3                       To determine the level of rate base, projected capital additions to  
4           enable the coal units to remain in service was established. The approved  
5           depreciation rates were applied to the plant balances to determine the  
6           depreciation expense as well as the balance in the accumulated reserve  
7           accounts. Changes in the level of deferred income taxes were included to  
8           provide the net rate base upon which the authorized return is applied to  
9           determine return on rate base. The authorized return on equity  
10          established in Case No. PU-16-666, along with the Company's capital  
11          structure and updated cost of debt, was used to develop the authorized  
12          return. The total costs to continue operations were projected to be \$33.5  
13          million during 2023.

14          Ongoing costs for the recovery of deferred costs and Heskett 4  
15          combustion turbine operations – Montana-Dakota began accelerating  
16          depreciation expense of the retiring coal units upon the announcement of  
17          the closures in February 2019 in accordance with Generally Accepted  
18          Accounting Principles (GAAP). GAAP requires that the net book value  
19          must be \$0 at the time of the plant closures. However, Montana-Dakota  
20          has not changed the level of depreciation recovered in rates charged to

1 customers and, therefore, began deferring the portion of depreciation that  
2 is in excess of the amount collected in rates.

3 Projected decommissioning costs to be incurred upon the plant  
4 closures have been estimated and are being amortized and will become a  
5 part of the costs to be recovered in the future.

6 The Company has established an employee retention package to  
7 ensure the plants will continue to operate until the closure dates. The  
8 package includes severance, retraining and job search assistance costs.  
9 Certain costs are required to be amortized upon the announcement under  
10 GAAP accounting rules.

11 The revenue requirement reflects the recovery of the deferred  
12 depreciation expense and decommissioning costs over a 15-year period,  
13 including a return on the unamortized balance, and a recovery of the  
14 employee retention package over a 5-year period.

15 The revenue requirement of the Heskett 4 combustion turbine was  
16 prepared and was based on the initial capital cost to be placed in service  
17 and was assumed to be in service for the full calendar year 2023. The  
18 revenue requirement included a return on the rate base as well as the  
19 operating costs necessary to operate the new combustion turbine. Those

1 costs include the incremental labor, benefits and other operating costs as  
2 well as the depreciation and property taxes.

3 The total projected costs associated with the recovery of deferred  
4 plant and employee costs and the revenue requirement of the combustion  
5 turbine are approximately \$22.3 million.

6 Fuel and purchased power costs – Montana-Dakota prepared two  
7 scenarios using its power generation dispatch software. The first scenario  
8 assumed operations as usual and Heskett and Lewis & Clark were  
9 included and expected to generate in a manner similar to that recently  
10 experienced. The second scenario did not include the Heskett and Lewis  
11 & Clark coal units and did include the Heskett combustion turbine. All  
12 other parameters were applied consistently.

13 The results of the two scenarios showed a reduction in fuel and  
14 purchased power costs under the retirement scenario and providing  
15 approximately \$8.8 million annual savings to Montana-Dakota's  
16 customers.

17 **Q. Please summarize the results of the revenue requirement analysis.**

18 A. Continuing to operate the Heskett 1 and 2 and Lewis & Clark coal  
19 units is projected to cost Montana-Dakota's customers approximately  
20 \$33.5 million annually. Retirement of these units and replacement with a

1 combustion turbine is expected to require \$22.2 million in annual revenue.  
2 This results in a savings to customers in excess of \$11 million annually.  
3 The fuel and purchased power savings that is expected to be passed to  
4 customers through the Fuel and Purchased Power Adjustment Mechanism  
5 is estimated to add another \$8.8 million in revenue reductions for a total  
6 customer savings in excess of \$20 million annually.

7 **Q. The analyses performed included a number of assumptions. Will**  
8 **Montana-Dakota continue to review and update the assumptions**  
9 **throughout the retirement and replacement process?**

10 A. Yes. Montana-Dakota relied on the best information available at  
11 the time the IRP was prepared to make the decision to retire and replace  
12 the generating units. Each cost estimate was thoroughly investigated and  
13 the Company believes the estimates are still reasonable at this time and  
14 will be reviewing and updating the costs when more information is  
15 available.

16 The revenue requirement included assumptions regarding an  
17 amortization of deferred depreciation and decommissioning costs over a  
18 15-year period and the employee retention package over a 5-year period.  
19 The amortization period selected for each category was chosen for the

1            purpose of this analysis; however, the Company is analyzing alternative  
2            amortization periods that may be presented in future proceedings.

3    **Q.    Does this complete your direct testimony?**

4    **A.            Yes, it does.**