

MONTANA-DAKOTA UTILITIES CO.

Before the North Dakota Public Service Commission

Case No. PU-20-\_\_\_\_

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. By whom are you employed and what is your position?**

5 A. I am the Director of Regulatory Affairs for Montana-Dakota Utilities  
6 Co. (Montana-Dakota).

7 **Q. Would you please describe your duties as Director of Regulatory  
8 Affairs?**

9 A. I am responsible for the development and implementation of  
10 Company objectives and policies with respect to rate structure, pricing  
11 policies, cost of service studies, fuel cost adjustments, purchased gas cost  
12 adjustments and gas tracking adjustments in each of the jurisdictions in  
13 which Montana-Dakota operates.

1 **Q. Would you please describe your education and professional**  
2 **background?**

3 A. I graduated from Minot State University with a Bachelor of Science  
4 degree in Accounting and I am a Certified Public Accountant (CPA). In  
5 June 2019, I completed the Utility Executive Course at the University of  
6 Idaho in Moscow, Idaho. I started my career with Montana-Dakota in 1999  
7 as a financial analyst in the Financial Reporting area and during my tenure  
8 with the Company have held positions of increasing responsibility,  
9 including Supervisor, Financial Reporting & Planning and Manager,  
10 Financial Reporting & Planning and Manager, Regulatory Affairs before  
11 attaining my current position.

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

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

16 **Q. Are you familiar with the books and records of Montana-Dakota and**  
17 **the manner in which they are kept?**

1 A. Yes. Montana-Dakota's books and records are kept in accordance  
2 with the Federal Energy Regulatory Commission (FERC) Uniform System  
3 of Accounts.

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

5 A. The purpose of my testimony is to present the overall cost of service  
6 for the twelve months ended December 31, 2019, the projected cost of  
7 service for 2020 and 2021 (test year) and the calculation of the revenue  
8 deficiency. I will discuss the Company's proposal to include pension and  
9 post retirement benefits regulatory assets in rate base. I will provide an  
10 overview of the interim revenue deficiency as well.

11 **Q. What statements, schedules and exhibits are you sponsoring?**

12 A. I give an overview of the revenue requirement presented in Statement  
13 A, which the Overall Cost of Service, and Exhibit No. \_\_\_(TRJ-1).

14 **Q. Please describe the revenue requirement presented in the**  
15 **Company's Statement A - Overall Cost of Service.**

16 A. Statement A, pages 2 and 3, as presented in Volume II of the  
17 Company's Application shows the 2019 per books income statement and

1 rate base for North Dakota's gas operations and shows a return on rate  
2 base of 5.567 percent. Also shown are the Projected 2020 and 2021 rates  
3 of return of 4.478 percent and 3.631 percent, respectively. The primary  
4 driver in the reduction to projected returns is an increase in rate base as  
5 well as the operating expenses associated with the increase in rate base,  
6 such as depreciation and property taxes. As will be discussed later in my  
7 testimony, Montana-Dakota has also proposed to include the pension &  
8 benefits and post retirement regulatory assets in rate base, net of deferred  
9 income taxes.

10 The Company's revenue deficiency of \$8,972,424 or an  
11 approximate increase of 7.8% is necessary to bring the return on rate  
12 base to 7.304 percent.

13 **Q. Montana-Dakota has proposed to include the net pension regulatory**  
14 **asset in rate base. Will you explain why?**

15 A. Yes. As discussed in the testimony of Ms. Kivisto, the Company's  
16 required contributions to the pension account resulted in a significant  
17 prepaid asset and exceeded the amount of pension expense (commonly  
18 referred to as FAS 87 or ASC 715 expense) recovered through the  
19 revenue requirement. The contributions are tax deductible for Montana-

1 Dakota and any earnings on those contributions in the pension trust  
2 account are not subject to income tax. With that in mind, the contributions  
3 help maintain the required funding level and, at the same time, typically  
4 result in lower FAS 87 expense.

5 Post retirement contributions are typically much more closely  
6 matched to the annual expense, so the prepaid asset is much smaller.  
7 However, Montana-Dakota considers the benefits and the circumstances  
8 surrounding the creation of both prepaid assets or liabilities that it is  
9 appropriate to include both pension and post retirement similarly.

10 The table below presents the regulatory asset or liability position for  
11 Montana-Dakota beginning in 2004 through the year ended 2019. As  
12 shown, Montana-Dakota has made cash contributions in the amount of  
13 \$81.5 million but has recovered only \$29.4 million through the inclusion of  
14 pension expense in the revenue requirement. North Dakota gas  
15 operations' share of the total pension regulatory asset is \$14.8 million as  
16 of December 31, 2019.

	Cash Contributions	Pension Expense	Pension Balance Debit (Credit)
Beginning Balance - 12/31/2004			\$7,777,266
Activity - 2005	\$0	\$4,179,348	3,597,918
Activity - 2006	-	4,118,976	(521,058)
Activity - 2007	1,188,690	3,724,426	(3,056,794)
Activity - 2008	-	2,825,775	(5,882,569)
Activity - 2009	8,347,434	4,759,097	(2,294,232)
Activity - 2010	3,871,657	(5,328)	1,582,753
Activity - 2011	13,757,133	1,610,332	13,729,554
Activity - 2012	12,038,687	(740,118)	26,508,359
Activity - 2013	10,014,592	1,830,351	34,692,600
Activity - 2014	12,202,457	594,340	46,300,717
Activity - 2015	2,182,143	1,398,780	47,084,080
Activity - 2016	-	1,746,833	45,337,247
Activity - 2017	422,015	1,422,159	44,337,103
Activity - 2018	7,200,692	720,403	50,817,392
MDU R funding	(5,133,171)	-	45,684,221
Activity - 2019	15,452,375	1,379,116	59,757,480
Total Funding	<u>\$81,544,704</u>	<u>\$29,564,490</u>	
Ending Balance - 12/31/2019			<u>\$ 59,757,480</u>

1 **Q. Is Montana-Dakota required to make contributions to its pension**  
2 **trust fund? And, what are the ramification if funding is not**  
3 **maintained?**

4 A. Yes. Internal Revenue Service rules govern minimum required  
5 pension funding contributions. If required contributions are missed or  
6 delayed, the missed payment would be considered a reportable event  
7 under the Employee Retirement Income Security Act of 1974 (ERISA)  
8 rules. This could also subject the company to excise taxes for failure to

1 meet minimum funding requirements. In addition, if the funded status  
2 drops below certain levels, restrictions on benefit payments may be  
3 required as well as potentially increased premiums payable to the Pension  
4 Benefit Guaranty Corporation.

5 **Q. Montana-Dakota has included pension and post-retirement benefits**  
6 **in this filing. Will you explain why the Company has decided to**  
7 **include these regulatory in rate base at this time?**

8 A. Yes. Montana-Dakota has not previously included the pension &  
9 benefits or post-retirement benefits regulatory assets in rate base. As  
10 reflected in the table above, the pension regulatory asset fluctuates from  
11 an asset to a liability and then, beginning in 2012, started to increase to a  
12 magnitude as the Company had made significant funding contributions.  
13 However, the amount recovered through the revenue requirement (i.e.  
14 recovery of FAS 87 expense as a component of operating expenses) has  
15 decreased to the point that the regulatory asset has become a material  
16 asset upon which Montana-Dakota is not able to earn a return.

17 Post retirement benefits regulatory asset is similar in nature, as  
18 mentioned earlier, but is on a smaller scale.

19 **Q. Please describe Exhibit No.\_\_(TRJ-1).**

1 A. Exhibit No.\_\_(TRJ-1) was prepared to present the Company's  
2 general ledger treatment and to provide a historic view of the pension  
3 regulatory asset and liability balances.

4 **Q. Has Montana-Dakota included a request for interim rate relief?**

5 A. Yes. An interim rate relief request of \$6,893,176, a 6.0 percent  
6 increase, has been developed in a separate set of Interim Statements  
7 pursuant to the North Dakota Century Code 49-05-06.

8 The following items are the primary changes from the Company's  
9 general rate case filing:

- 10 • The Return on Equity (ROE) was modified to reflect the 9.4 percent  
11 authorized in Case Nos. PU-17-295 and PU-17-490;
- 12 • The balance in the Pension and Benefits and Post Retirement regulatory  
13 assets was excluded; and
- 14 • Regulatory Commission Expense was adjusted to exclude the costs  
15 associated with this case.

16 Ms. Vesey will provide supporting testimony for the development of  
17 the projected income statement and rate base in her testimony.

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

19 A. Yes, it does.

**MONTANA-DAKOTA UTILITIES CO.**  
**PENSION & BENEFITS EXHIBIT**  
**2017 - 2019**  
**(000s)**

**GENERAL LEDGER RECONCILIATION**

	<b>2017</b>	<b>2018</b>	<b>2019</b>
Fair Value of Net Plan Assets	\$192,712	\$167,331	\$176,548
Benefit Obligation at End of Year	250,889	219,969	206,730
Funded Status - Over (Under)	(\$58,177)	(\$52,638)	(\$30,182)
Regulatory Asset	\$102,514	\$103,455	\$89,939
Net Asset in Rate Base	\$44,337	\$50,817	\$59,757

**MONTANA-DAKOTA UTILITIES CO.  
 PENSION BALANCE SUMMARY  
 ENDING DECEMBER 31, 2019**

	Cash Contributions 1/	Pension Expense 2/	Pension Balance Debit (Credit)
Beginning Balance - 12/31/2004			\$7,777,266
Activity - 2005	\$0	\$4,179,348	3,597,918
Activity - 2006	-	4,118,976	(521,058)
Activity - 2007	1,188,690	3,724,426	(3,056,794)
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Activity - 2018	7,200,692	720,403	50,817,392
Corporate Reorg. Adj. 3/	(5,133,171)	-	45,684,221
Activity - 2019	15,452,375	1,379,116	59,757,480
Total Funding	<u>\$81,544,704</u>	<u>\$29,564,490</u>	
Ending Balance - 12/31/2019			<u>\$ 59,757,480</u>

1/ Actuarially determined cash payments to the pension trust fund.

2/ Actuarially determined pension expense use in the development of the revenue requirement through rate cases.

3/ Adjustment to reflect the removal of MDU Resources pension funding - cash received by Montana-Dakota due to the 1/1/2019 corporate reorganization in Case No. PU-18-075.