

SURREBUTTAL TESTIMONY

JOEL F. JEANSON

STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

MONTANA-DAKOTA UTILITIES CO.
NATURAL GAS RATE CASE

CASE NO. PU-20-379

February 26, 2021

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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 143 South Street, 6th Floor, Boston, MA 02111.

5
6 **Q. On whose behalf are you filing this testimony?**

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

9
10 **Q. Are you the same Joel F. Jeanson who filed direct testimony earlier in this**
11 **proceeding?**

12 A. Yes, I am.

13
14 **Q. What is the purpose of your surrebuttal testimony?**

15 A. The purpose of my surrebuttal testimony is to respond to issues raised by
16 Company witnesses Vesey and Jacobson in their rebuttal testimony.

17
18 **II. Response to Issues Raised by Ms. Vesey in Rebuttal**

19 **Q. Please describe the specific issues that you wish to respond to as raised by**
20 **Ms. Vesey in rebuttal.**

21 A. Following are the issues raised by Ms. Vesey to which I will respond. In all
22 cases, Ms. Vesey's does not accept the related recommendations in my direct
23 testimony.

- 24 • Executive stock compensation and executive incentive compensation
25 • Uncollectible accounts expense
26 • Plant retirements
27 • A&G capitalization

1 **Q. Are there any points raised by Ms. Vesey in rebuttal that you choose to**
2 **accept?**

3 A. Yes. After seeing the information provided by Ms. Vesey related to customer
4 advances by month through the end of 2020, I am satisfied that the amounts of
5 customer advances as included in this case are reasonable. While I anticipated
6 that customer advances may grow throughout 2020, actual customer advances at
7 the end of December 2020 are, in fact, less than the forecasted levels. This
8 provides a benefit to customers in that the rate base reduction based on the
9 forecast is greater than if adjusted to end of year actuals.

10
11 **Q. Please summarize Ms. Vesey’s discussion related to executive stock and**
12 **incentive compensation in recommending against my proposed disallowance.**

13 A. Ms. Vesey makes the following points in discussing why the full amount of
14 executive stock and incentive compensation should remain as a cost of service.

- 15 • Stock and incentive compensation is a part of a total compensation package
16 needed to attract and retain employees that will make appropriate business
17 decisions
- 18 • Stock compensation is designed to focus on long-term business decisions and
19 to encourage lasting and stable planning.
- 20 • If the Company moved away from offering stock and incentives as
21 components of executive compensation, it would have to adjust other
22 components of compensation.

23
24 **Q. Do you find these arguments compelling?**

25 A. No. Contrary to Ms. Vesey’s belief that “good business decisions” are beneficial
26 to customers, I do not believe that the interests of shareholders and customers are
27 always fully aligned. “Good” business decisions made to achieve EPS objectives
28 may not be in the interests of customers if resulting in significant increases in
29 capital expenditures or expenses that increase customers’ rates.

1 I believe that a well-designed compensation program is necessary to attract and
2 retain employees. However, if one key feature of executive compensation is
3 related to achieving objectives which primarily benefit investors, then disallowing
4 that cost – which is what my recommendation does - from utility cost of service
5 and instead making it a cost funded by investors is reasonable. I would also note
6 that this practice is common throughout the regulated utility environment in the
7 United States.

8 If these earnings-based components of executive compensation were to also
9 include customer-focused attributes such as customer satisfaction, reliability, and
10 rates, then I would be more inclined to consider them as customer-benefitting and
11 appropriately includable in cost of service.

12 I continue to recommend that total labor expense in the revenue requirement be
13 reduced by \$361,158.

14
15 **Q. Please summarize Ms. Vesey’s discussion related to uncollectible accounts
16 expense in recommending against my proposed disallowance.**

17 A. Ms. Vesey suggests that looking at booked bad debt expense for 2020 is not an
18 appropriate lens for determining whether the forecasted uncollectible accounts
19 expense is reasonable. She argues that because the moratorium for service
20 disconnections has been extended that past due customer accounts have not been
21 written-off consistent with prior years. Instead, she discusses the reasonableness
22 of the Company’s approach which uses a three-year average of write-offs to
23 revenues as the basis for calculating the forecasted uncollectible accounts
24 expense.

25
26 **Q. Do you find this argument compelling?**

27 A. No. First, I would suggest that the Company can still book an appropriate level of
28 bad debt expense despite the extended moratorium on service disconnections.
29 While there may not be substantial historical precedent for making such an

1 estimate in these circumstances, good accounting practices require that
2 accounting estimates be reasonable.

3 Second, the use of a multi-year average is reasonable when variables in the
4 calculation can be skewed if looking at only a single period. For example, a
5 portion of write-offs during a single calendar year will relate to amounts billed in
6 a prior year. Depending on management decision-making, write-offs can be
7 accelerated or delayed. On the other hand, bad debt expense, which is an estimate
8 of amounts billed during a period of time which will subsequently prove to be
9 uncollectible, aligns both revenues and expenses.

10 The following table compares write-offs and bad debt expenses for the three years
11 ended December 31, 2019. This is the same period used by the Company to
12 develop its uncollectible accounts forecast.

Year	Net Write-Offs ¹	Bad Debt Expense ²	Sales and Transportation Revenue ³	Net Write-offs to Revenue	Bad Debt Expense to Revenue	Diff
2017	\$413,887	\$284,204	\$109,538,358	0.38%	0.276%	\$129,683
2018	443,421	359,605	117,196,410	0.38%	0.307%	83,816
2019	330,367	305,665	117,834,454	0.28%	0.259%	24,702
3-Year Total	\$1,187,675	\$949,474	\$344,569,222	0.34%	0.276%	\$238,201
2020	\$386,444	\$313,701	\$113,659,942	0.34%	0.276%	\$72,743
2021	\$390,145	\$316,698	\$114,745,655	0.34%	0.276%	\$73,447

13
14 As shown in the above table, in each year of the three-year period 2017 through
15 2019, net write-offs exceed bad debt expense. I would have expected some
16 variability among years more similar three-year averages.
17

¹ Vesey Rebuttal Page 5

² Response to Advocacy Staff DR 6.12 and PA projection for 2020 and 2021 using 2017-2019 average

³ Vesey Rebuttal Page 5

1 **Q. Considering the arguments made in rebuttal and the results of your**
2 **subsequent analysis, what do you recommend?**

3 A. I recommend that bad debt expense for the forecast period be based on the three-
4 year average of bad debt expense to sales and transportation revenue as shown
5 above. This results in a \$74k reduction in bad debt expense for 2021. Consistent
6 with the Company's approach, this calculation does not recognize the potential
7 impact of COVID and the extended moratorium on service disconnections.

8

9 **Q. Having reviewed Ms. Vesey's explanation of the methodology used to develop**
10 **the 3-year ratio for retirements and how that ratio is applied, do you still**
11 **have concerns that retirements may be understated?**

12 A. Yes. I believe the methodology described will still tend to understate retirements
13 in periods in which the forecasted activity is significantly greater than historical
14 actuals. However, as discussed further below, I am recommending a reduction in
15 plant additions due to actual retirements 2020 being substantially below the
16 amounts forecasted which will eliminate the need to adjust retirements (and more
17 importantly, a related decrease in depreciation expense).

18

19 **Q. Do you agree with Ms. Vesey's suggestion that no action needs to be taken**
20 **related to your recommendation to complete an A&G Capitalization study?**

21 A. No. When I reviewed the 2017 study provided by the Company and mentioned
22 by Ms. Vesey, I found very few costs included in that study that I would consider
23 to be administrative and general (that is, related to functions whose time is
24 charged to account 920, A&G Salaries). Instead, the positions listed appeared to
25 be more consistent with a second indirect overhead category commonly referred
26 to as "Engineering & Supervision" or "E&S." That observation, coupled with
27 my additional observations related to the limited dollar amount and percentage of
28 A&G costs capitalized, confirms that my recommendation remains valid.

29

30

1 **III. Response to Issues Raised by Mr. Jacobson in**
2 **Rebuttal**

3 **Q. Are you persuaded by Mr. Jacobson’s comments in support of retaining the**
4 **prepaid pension / OPEB asset, net of deferred income taxes, in rate base?**

5 **A.** No. While I am sympathetic to the idea that the investor-funded portion of a
6 pension and / or OPEB prepaid asset be included in rate base⁴, the Company has
7 been unable to identify that portion of pension expense which is funded by
8 ratepayers thus making it impossible to identify that portion of the prepaid
9 expense funded by investors.

10
11 **Q. Absent being able to identify with confidence the amount of the prepaid**
12 **expense which is funded by investors, are there any other ways to estimate a**
13 **reasonable amount of prepaid pension expense to be included in rate base?**

14 **A.** Yes. For example, in Wyoming, the March 2020 Order in the Company’s most
15 recent gas general rate case describes the following allowed recovery of prepaid
16 pension expense.

17 *MDU proposed to include the December 31, 2019, ending net*
18 *prepaid pension balance, as allocated to Wyoming gas operations,*
19 *as an addition to working capital (emphasis added). The OCA*
20 *recommended the use of a 10-year average of the net prepaid*
21 *pension asset ending December 31, 2018, as a rate base addition.*
22 *The Parties agreed to the use of an 11-year average ending*
23 *December 31,⁵*

24 Using this approach, for the period 2005 through 2019, the years for which the
25 Company has provided data, the average ending prepaid pension asset is \$23.8M,
26 of which North Dakota gas operations share is about 24.75%, or \$5.9M (as

⁴ In some states, the allowed prepaid pension expense is treated as a negative component of the capital structure rather than an addition to rate base.

⁵ Wyoming Docket No. 30013-351-GR-19

1 opposed to \$14.8M based on the December 31, 2019 prepaid pension asset
2 balance). These amounts do not reflect the prepaid OPEB assets or related
3 deferred income taxes.

4 Other alternative approaches would include using a shorter time period to
5 compute the average, such as the 11-year period used in Wyoming or increasing
6 the amount of pension expense allowed for recovery in cost of service. The latter
7 approach would base pension expense for recovery purposes on a calculation
8 other than the GAAP-calculated pension expense. As an example, in a recent
9 Indianapolis Power & Light case, the Office of the Utility Consumer Counselor
10 recommended allowing the recovery through rates of and additional pension
11 expense (i.e., in addition to the GAAP-calculated amount) based on multiplying
12 Excess ERISA Required Contributions by the actuarial Return on Plan Assets.⁶
13 However, in the case of MDU, the Company has indicated that contributions are
14 based on the ERISA minimum contributions which would not support an
15 adjustment calculated in this manner.

16
17 **Q. Do you agree with Mr. Jacobson that the Company is seeking regulatory**
18 **asset treatment for the prepaid pension asset?**

19 A. No. Company witnesses identify the prepaid pension asset as both working capital
20 and a regulatory asset, thus blurring the distinction. And in other states in which
21 the Company operates, the Company has labeled the prepaid pension asset as
22 “working capital.” However, rather than labeling what is important, is ensuring
23 that the amounts for which the Company is seeking rate base treatment for
24 represent only those amounts funded by investors.

25 Ms. Kivisto identifies pension expense as “the amount included in the Company’s
26 revenue requirement and recovered through rates charged to customers.”⁷ This

⁶ This approach appears to suggest that customers currently fund the minimum ERISA contributions, which is not the case in North Dakota.

⁷ Kivisto Direct, Page 11, Lines 2-4

1 may be true at the time when rates are established, however, pension expense then
2 changes annually based on calculations made to comply with generally accepted
3 accounting principles, and there are no mechanisms to adjust rates on an on-going
4 basis for these subsequent changes in pension expense. From a regulatory
5 perspective, establishing a regulatory asset should not be as simple as using
6 booked pension expense as a proxy for customer funded amounts.

7
8 **Q. Has your recommendation changed?**

9 A. Yes. Based on my review of the rebuttal testimony filed by the Company and
10 additional research related to the regulatory treatment allowed for prepaid pension
11 in other jurisdictions in which the Company operates,⁸ I conclude that it is
12 reasonable to allow the recovery of a prepaid pension asset calculated in a manner
13 similar to that allowed in the 2020 order in Wyoming. This recommendation
14 acknowledges that investor funding has likely contributed to the prepaid
15 pension/OPEB asset.

16 For the prepaid pension asset, the amount recommended is \$5.9 million less \$1.0
17 million in accumulated pension deferred income taxes.⁹

18 For the prepaid OPEB asset, the December 31, 2019 amounts would be adjusted
19 to 24.75% of the amounts shown on Statement D-1, or \$1.0 million less \$0.03
20 million in accumulated OPEB deferred income taxes.

21
22 **IV. Other Rate Base Adjustments**

23 **Q. The Company accepted your recommended rate base adjustments for deferred**
24 **projects and meters. Do you have any additional adjustments you would**
25 **recommend?**

⁸ See the MDU March 2020 Wyoming rate order and the February 2021 Montana rate order.

⁹ The Accumulated Deferred DIT amount is based on 24.75% of the \$3.9M balance as of December 31, 2019.

1 A. Yes. The Company response to Advocacy Staff DR 15.4 indicated that actual
2 capital expenditures for replacement projects total \$8.6 million in 2020. This
3 compares to \$11.0 million for 2020 has indicated in my direct testimony. I
4 recommend that this difference of \$2.4 million be removed from rate base. I also
5 recommend that the Company adjust depreciation expense to reflect this
6 difference.

7

8 **Q. Do you have any other adjustments?**

9 A. Yes. As discussed in Mr. Heidell's surrebuttal testimony¹⁰, I have excluded an
10 additional \$300,737 in system costs associated with line extensions.

11

12 **Q. In your direct testimony you noted that the cost of meters and regulators were**
13 **excluded from costs subject to recovery from customers advances in the**
14 **calculation of the Rule 120 maximum allowable investment. Has your opinion**
15 **changed?**

16 A. Yes. Mr. Oswald indicates that meters and regulators can be re-purposed if no
17 longer needed unlike underground mains and service lines. I am not persuaded by
18 that argument as customers premises require both meters and regulators in order to
19 receive gas service. However, Mr. Oswald also mentions that this policy has been in
20 place sine 1986. Given the lengthy amount of time this policy has been in place, I
21 accept the Company's argument to keep this exclusion in place.

22

23 **V. Summary of Adjustments to Rate Base and Revenue**
24 **Requirements**

25 **Q. Please summarize the rate base adjustments that you recommend.**

26 A. Canceled and Delayed Projects

¹⁰ Pages 8 and 9 of the Surrebuttal Testimony of Advocacy Staff Witness Jim Heidell filed on
February 26, 2021.

1 In my direct testimony, I recommended that the total plant additions in 2020 be
2 reduced by \$1,014,462 due to canceled projects and delayed projects. I also
3 recommend reducing 2021 total plant additions by \$754,711. The recommend
4 2021 reduction comprises \$1,555,413 of canceled and delayed projects partially
5 offset by \$459,702 of 2020 project delays which moved into 2021 and the
6 additional \$341,000 cost to uprate the Jamestown system pressure. As noted
7 above, the Company has accepted these adjustments.

8 Meters

9 A reduction of \$1.0 million in meter costs. As noted, the Company has accepted
10 this adjustment.

11 Line Extensions

12 A reduction of \$300,737 of system costs excluded from the calculation of
13 Maximum Allowable Investment.

14 Replacements

15 I recommend adjusting replacement capital expenditures by \$2.4 million for the
16 difference between the amounts forecasted for 2020 and actual 2020 spend.¹¹

17 Prepaid Pension / OPEB Assets

18 I recommend reducing the amount of the prepaid pension and OPEB assets to
19 24.75% of the amounts proposed. This is a change from my direct testimony, in
20 which I recommended the complete exclusion of the proposed prepaid pension /
21 OPEB asset from rate base. This represents a net reduction of \$9.3 million from
22 the amounts included in working capital for these prepaid assets for 2021 as
23 included in the Company's Application.¹² This adjustment does not reflect the
24 (\$1,510,207) correction identified by Mr. Jacobson in rebuttal.

¹¹ Calculated as the difference between the 2020 projected replacement spend provided in DR Response 5.7 and the 2020 actuals provided in DR response 15.4.

¹² Total Provision for Pension / OPEB of \$16.8M less Average Accumulated Deferred Income Taxes of \$(4.4)M x (100% - 24.75%). See Page 27 of Jeanson Direct.

1 **Q. What is the net impact on rate base of these changes to rate base?**

2 **A.** As shown on Statement A, Page 3 of 3, of the Company’s Application, Net Rate
3 Base for 2021 is \$184,665,625. I recommend this be adjusted as follows:

Original Rate Base – 2021	\$184,665,625
Canceled and Delayed Projects	\$1,391,818 ¹³
Meters	\$1,000,000
Replacements	\$2,400,000
System Costs Associated with Line Extensions	\$300,737
Prepaid Pension / OPEB Asset	\$9,300,000
Rate Base – 2021, As Adjusted	\$170,273,070

4 In addition, PA estimates a reduction of \$160,910 to accumulated depreciation
5 associated with the above adjustments which will increase rate base by a like
6 amount.

7 **Q. Please summarize the revenue requirements adjustments that you recommend.**

8 **A.** As discussed above, I recommend the following adjustments to revenue
9 requirements.

Executive Compensation	\$361,158
Bad Debt Expense	\$73,447

10 In addition to the above, Mr. Jacobson has included an adjustment of (\$438,395)
11 to pension expense in rebuttal.

12 Finally, the above list does not include any proposed adjustments related to a
13 return on rate base.

14

15 **Q. Does this conclude your surrebuttal testimony?**

16 **A.** Yes.

17

¹³ Reflects the mid-year convention for adjustments booked in 2021.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

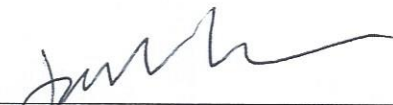
Montana-Dakota Utilities Co.
2020 Natural Gas Rate Increase
Application

Case No. PU-20-379

VERIFICATION

STATE OF WISCONSIN)
) ss.
COUNTY OF WAUKESHA)

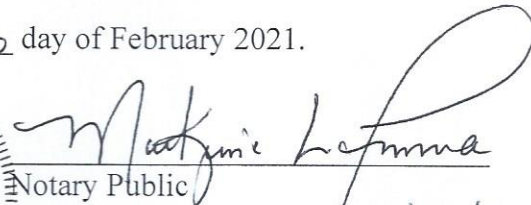
Joel F. Jeanson, being first duly sworn on oath, deposes and states that he has read the testimony and exhibits submitted in the above captioned matters under his name, that they were prepared by him or under his direction, that he knows the contents thereof, and that the same are true and correct to the best of his knowledge and belief.



Joel F. Jeanson

Subscribed and sworn to before me this 26 day of February 2021.





Notary Public
My Commission Expires: 7/31/21